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ABSTRACT

Appropriate for secondary school social studies, this booklet considers the decline of certain basic industries in the United States and the unemployment which accompanies this decline. The document contains five sections. Section one, "The Blue-Collar Blues," examines the uneven nature of the current economic recovery, which has left many unemployed in industries that were once the core of the nation's economy. "The Visible Hand of Uncle Sam" discusses whether current problems indicate too much or too little government intervention. "Competing in an International Economy" covers the controversy over protectionist measures. "What Do We Owe to the Unemployed?" discusses unemployment programs and the larger issue of what aid the government should provide. The fifth section, "Help Wanted," concludes the booklet by stressing the need to develop measures to ease the difficulties of unemployment and economic change. Two self-administered questionnaires intended for completion before and after participation in a public forum or reading the booklet are included as well as a list of recommended readings. (IS)

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NATIONAL ISSUES FORUM

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Hundreds of thousands of skilled blue-collar workers are out of work, through no fault of their own.

★ Why are many of America's "smokestack industries" in the doldrums?

★ What can be done to preserve jobs, or to ease the transition from one job to another?

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Jobs and the Jobless in a Changing Workplace

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As you begin to read this book from the Domestic Policy Association, you are joining thousands of Americans who are participating, in communities all across the country, in the third season of the National Issues Forum. This is a collaborative effort to achieve an ambitious goal — to bring Americans together every year to address urgent domestic issues.

This series was conceived and organized by the Domestic Policy Association, which represents the pooled resources of a nationwide network of organizations — including libraries and colleges, museums and membership groups, service clubs and community organizations. It is an effort that has a special significance in an election year. The Domestic Policy Association does not advocate any specific point of view. Its goal is not to argue the merits of particular solutions, but to stimulate debate about what is in the public interest. The National Issues Forum is not another symposium for expert opinion, or an occasion for partisan politics. Rather, it provides a forum in which concerned citizens can discuss specific public issues, air their differences, think them through, and work toward acceptable solutions.

Each year, the convenors of this nationwide effort choose three domestic policy issues for discussion. This year's topics are environmental protection, health care costs, and jobs and the jobless. These are urgent issues that have been prominent in the news. In each of these areas new realities have to be faced, and important choices made. To address them is to raise serious questions about our values and priorities; they cannot be viewed only from the perspective of particular interests or partisan politics.

There is an issue book like this one for each of the topics. These issue books are intended as a guide to the debate. They provide a menu of choices. Unlike so many partisan discussions, these menus come with a price tag attached.

As the people who have participated in the National Issues Forum over the past two years know, the forum process doesn't begin and end in local meetings. The DPA schedules a series of national meetings each year to convey to elected leaders the views that emerge from these meetings. One of those meetings will take place this coming spring at the John F. Kennedy Presidential Library in Boston. The enthusiastic response to these forums over the past two years indicates that leaders are interested in your considered judgment about these issues. So that your thoughts and feelings can be conveyed in these meetings, we have provided an issue ballot at the beginning and end of this book. Before you begin reading and after you have attended the forums and given some thought to the issue, I urge you to fill out those ballots and mail them back to us.

The Domestic Policy Association's goal is to help citizens engage in discussions about what is in the public interest. As the editor of these issue books, I'm pleased to welcome you to this common effort.

Keith Melville

Keith Melville
Editor-in-Chief
National Issues Forum

Domestic Policy Association
5335 Far Hills Avenue
Dayton, OH 45429

1. Jobs and the Jobless in a Changing Workplace

One of the reasons why people participate in the National Issues Forum is that they want leaders to know how they feel about these issues. The Domestic Policy Association has promised to convey a sense of your thinking on the topic of jobs and the jobless both locally and at the national level. In order to present your thoughts and feelings about this issue, we'd like you to fill out this short questionnaire *before* you attend forum meetings (or before you read this issue book, if you buy it elsewhere), and another short questionnaire — which appears at the end of this issue book after the forum (or after you've read this material).

The leader at your local forum will ask you to hand in this ballot at the end of the forum sessions. If it is inconvenient to do that, or if you cannot attend the meeting, please send the completed ballot to the DPA in the attached envelope. In case no envelope is enclosed, you should send this ballot to the Domestic Policy Association at 5335 Far Hills Avenue, Dayton, Ohio 45429. A report summarizing participants' views will be available from the DPA next spring.

Part I:

For each item below, check the appropriate box to indicate if it is something

- ☐ we should do *now*
- ☐ we should do *only if* the problem of chronic unemployment gets worse
- ☐ we should *not* do under *any* circumstance

Proposals:	**Should Do Now**	**Only If**	**Should Not Do**	**Not Sure**
Government initiatives:				
1. Have the government provide preferential credit assistance to "sunrise" industries, those with a good chance of growth **PRO:** Government investment could speed up the growth of new industries, thereby creating many jobs **CON:** The government cannot possibly make wiser, more efficient decisions than private investors can; potential for "pork barreling"	☐	☐	☐	☐
2. Provide tax relief *only* to faltering industries such as steel, rubber, shoes, and machine tools **PRO:** Such industries, once the backbone of our economy, provide Americans with thousands of jobs **CON:** Unfair to taxpayers and to consumers who would pay higher prices	☐	☐	☐	☐
3. Have the government bail out companies such as Chrysler that would otherwise go out of business **PRO:** Once-troubled companies such as Chrysler and Lockheed would not be in business if the government hadn't intervened **CON:** Success in one case does not guarantee success in another; once you start propping up sagging industries, you're rewarding the inefficient	☐	☐	☐	☐
4. Impose further restrictions on foreign imports to preserve American jobs **PRO:** Would save jobs in the short run **CON:** Might lead to retaliation and a trade war	☐	☐	☐	☐
5. Lower trade barriers to promote free trade **PRO:** More jobs are generated by exports than are lost because of foreign competition **CON:** Will lead to even more dislocated workers; countries we trade with have trade barriers against foreign products, so we should, too	☐	☐	☐	☐

	Should Do Now	Only If	Should Not Do	Not Sure
6. Provide additional government assistance to workers who lose their jobs through no fault of their own	☐	☐	☐	☐
PRO: Such workers lose their jobs because of decisions that benefit the rest of us; it's not fair to impose most of the burden on the people who are thrown out of work. **CON:** We already have numerous programs to help such people, including unemployment insurance and food stamps. Neither employers nor the government can afford to be more sympathetic				
7. Employers should be required to retrain workers for whom they can no longer provide jobs	☐	☐	☐	☐
PRO: Companies owe displaced workers more than a final paycheck. **CON:** Retraining is costly and not many companies can afford to provide such help				

Part II:

Indicate whether you agree or disagree with each of these statements.

	Agree	Disagree	Not Sure
8. Without an explicit industrial policy, America will not be able to compete successfully in the international economy.	☐	☐	☐
9. Rather than trying to assist old industries, like steel and shoes, government should devote its resources to helping young industries like electronics and computers.	☐	☐	☐
10. Neither the government nor employers can afford to provide any more assistance to displaced workers than they are currently providing.	☐	☐	☐

Part III:

Background Questions

11. Did you participate in a DPA forum *last* year?

- Yes ☐
- No ☐

12. Did you (or will you) participate in DPA forums on other topics *this* year?

- Yes ☐
- No ☐

13. Which of these age groups are you in?

- Under 18 ☐
- 18 to 29 ☐
- 30 to 44 ☐
- 45 to 64 ☐
- 65 and over ☐

14. Are you a man or a woman?

- Man ☐
- Woman ☐

NATIONAL ISSUES FORUM

Jobs and the Jobless in a Changing Workplace

Prepared for the
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by the
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The Domestic Policy Association

The Domestic Policy Association is a nonprofit, nonpartisan association devoted to raising the level of public awareness and discussion about important public issues. It consists of a nationwide network of institutions — colleges and universities, libraries, service clubs, membership groups, and civic organizations — that bring citizens together to discuss public issues. The DPA represents their joint efforts to enhance what they already do by working with a common schedule and common materials. In addition to convening meetings each fall in hundreds of communities in every region of the country, the DPA also convenes meetings at which it brings citizens and national leaders together to discuss these issues and the outcome of community forums.

Each year, participating institutions select the topics that will be discussed in the Issue Forums. On behalf of the Domestic Policy Association, the Public Agenda Foundation — a nonprofit, nonpartisan research and education organization that devises and tests new means of taking national issues to the public — prepares issue books and discussion guides for use in these forums. The Domestic Policy Association welcomes questions about the program, and invites individuals and organizations interested in joining this network to write to: The Domestic Policy Association, 5335 Far Hills Avenue, Dayton, Ohio 45429.

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One of the most hotly disputed issues is what role the government should take. Does the decline of some of the core industries indicate too much government intervention, or too little?

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There is real concern that, in various areas, American manufacturers have been losing in a competition with foreign producers. Should we try to preserve jobs and threatened industries by taking additional protectionist measures?

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What we haven't yet done is decide how to ease the pains that accompany massive changes in the workplace. For millions of Americans who are the victims of those changes, that is an urgent matter.

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The Blue-Collar Blues

> "As unemployed steelworkers will tell you, the blessings of the current economic recovery have not been spread evenly. Unemployment is a pressing problem for many people who worked in the industries that used to be the core of the nation's economy."

Consider America's economic situation and its implications for employment. Having recently endured a severe recession, by the summer of 1984 the economy was buoyed by a strong recovery. As indicated by robust increases in the Gross National Product — the measure of all the goods and services produced in this country — the economy is cruising along. At the moment, unemployment is not a severe problem for the work force as a whole. Although unemployment was up slightly in July for the first time in 20 months, the rate was still just 7.4 percent, far below the 10.7 rate registered in 1982 in the trough of the recession.

If America's recovery from one of the worst recessions on record has been remarkable, even more remarkable is the nation's ability to create new jobs. Over the last decade, while Western Europe lost about 2 million jobs, the United States created about 20 million.

The good economic news seems to be everywhere. Consumer spending has soared. Rising profits and favorable tax laws have provided corporations with ready cash to invest, and business confidence is high. Confidence is so strong, in fact, that companies like Exxon and Coca-Cola are buying back their own stock, convinced that its value has increased and that their best investment is in their own work.

For most Americans in 1984, the economic outlook is quite favorable. Inflation is low, and household income is substantially higher than it was a few years ago. That's good news for butchers and bakers and silicon-chip makers — for more than 105 million Americans who currently hold jobs. The favorable outlook for new jobs is particularly good news for recent college graduates heading into white-collar jobs, and for those without college degrees who are looking for employment in the expanding service sector.

Bad News

But there is some bad news. The blessings of the economic recovery have not been spread evenly — either geographically or by industry. While states such as Texas and Massachusetts are enjoying a boom because they include many prosperous high-tech industries, and because many of their residents are business and professional workers for whom work is available, the situation in some of the industries that used to symbolize the nation's economic strength is very troubled indeed. In Detroit, America's auto capital, despite the rising profits of the auto industry, unemployment is over 13 percent. Even as the nation has been celebrating its economic recovery, the unemployment rate in Pennsylvania has been as high as 15 percent, twice the national rate. In the steel towns around Pittsburgh, it is quite a bit higher than that.

These pockets of high unemployment persist at a time of general prosperity because many of the basic industries that provide the lifeblood of the economy in these regions no longer

Photo by Harry Frye, Courtesy of *Beaver County Times*

need as many workers as they once did. In some cases, these industries remain profitable through the use of new technologies which enhance productivity but reduce the number of jobs. In other cases — as with the steel industry — a more fundamental transition is taking place. Fewer well-paid steelworkers are needed because demand is down, and because foreign competitors are producing steel at lower prices. In 1982, employment in the steel industry dropped to 242,000, the lowest figure for the industry since the early 1930s. In part, that was a result of the recession. But it was a reflection too of a long-term transition that is gradually transforming the American work force.

The U.S. economy is experiencing an historic shift away from some of the manufacturing industries that dominated the U.S. economy for nearly a century. The U.S. Bureau of Labor Statistics projects that most of the new jobs over the next decade will open up in white-collar occupations and in service industries. Our concern in this book is for the people and industries that are left behind. Our purpose is not to examine the overall problem of unemployment. Instead, we focus on just one of its aspects and ask what can be done about blue-collar workers who are displaced from their jobs.

Prescriptions about what ought to be done are not likely to be very useful if they are based upon an inaccurate diagnosis of the problem. In this area especially, it is easy to misunderstand the problem. It is *not* the case that the economy as a whole is "deindustrializing" rapidly or that most industries are in trouble. By various measures, including their success against foreign competition, many American industries — in such fields as aerospace, household appliances, and communication equipment — are doing quite well.

In other areas, however, American manufacturers are experiencing severe problems. Steel is a prominent example on the list of troubled industries, but it is by no means alone. The plants that make car tires in Akron, Ohio, now employ far fewer workers than they did just a decade ago. The machine tool industry, which makes the metal-cutting tools needed to produce such things as automobile fenders and airplane fusilages, is also in crisis. Even as other industries are pulled forward by a booming economy, orders for machine tools are down and employment is 30 percent lower than it was in 1979.

Wrenching changes have led to factory shutdowns and layoffs for many workers who only yesterday were the skilled blue-collar elite in some of the nation's basic industries.

The problem is most visible throughout the "Rust Bowl," the belt of heavy industry surrounding the Great Lakes that relied so heavily on the auto and steel industries. But dislocated workers are found throughout the country in various industries where smokestack industries have shrunk or moved away, or where automation has reduced the demand for blue-collar workers. Since there is no agreed-upon definition of what constitutes a "dislocated" blue-collar worker, estimates of the extent of the problem differ — from several hundred thousand to perhaps two million. No matter what the exact number, there are a lot

of skilled and willing workers in this category, and they are out of work through no fault of their own. Their plight has become a matter of concern to many Americans who want to know why the problem has become so severe and what can be done about it.

The best way to understand the meaning of these changes in the work force is to focus on some of the people who have been thrown out of work, like Paul and Maureen Trout of Homestead, Pennsylvania. They spent years working in the steel industry only to be laid off when the largest manufacturer in the area decided to cut back its steel manufacturing and put many of its assets elsewhere. The Trout's experience, as well as the circumstances that led up to U.S. Steel's decision in 1982 to close its open-hearth operation at Homestead, are typical in several respects. What happened there sheds a certain light on a basic transition that is taking place in the work force, and its human consequences.

What's Good for the Steel Industry

If you drive through the steel-making valley around Pittsburgh, through what was once a mighty industrial complex on the banks of the Monongahela River, you see vivid evidence of an industry in decline. And you begin to understand what it means to the people who live in these towns that of the 30,000 workers who were employed in six U.S. Steel Company plants in this area just five years ago, fewer than 10,000 people work there now.

For several generations, many of the residents of the Monongahela Valley relied on the U.S. Steel Company and other steel-making firms for their livelihood and for some of the highest blue-collar wages in the entire work force. For years a giant in the industry, U.S. Steel was a particularly reliable employer. In the mid-nineteenth century, the U.S. Steel plant in nearby Johnstown was the first mass producer of steel rails for the nation's railroads. Over the next few decades the steel industry provided employment for millions of immigrants. As the country grew, so did the U.S. Steel Company. By the turn of the century, it was more than the leading force in its industry. Many regarded it as the nation's leading industrial concern. Its role expanded further in the 1940s when steel makers played a vital role in the war effort. By the end of World War II, steel represented the largest manufacturing sector in the American economy; it had the highest revenues and the biggest labor force. The economies of scale that were so important in the steel industry favored American manufacturers over foreign producers. As a result, this nation's steel firms were soon producing 65 percent of the world's crude steel. They were so efficient that they could pay high wages and still produce low-cost steel.

But the record output and high profit of American steel makers in the 1950s masked some basic changes that were taking place. By the 1970s, the woes of U.S. Steel and of the American steel industry as a whole were painfully evident. The trend toward smaller cars, and the increasing use of materials such as aluminum and plastic combined to diminish demand for steel. Foreign steel makers who had new mills that took advantage of advanced steel-making techniques captured an increasing share of the world market, and cut into the American market. Hobbled by expensive labor and aging facilities, American steel makers were in a poor position to compete with foreign producers.

In just one generation the American steel industry moved from a preeminent position in the world economy to a diminished and uncertain position. By the mid-1970s, the productivity of Japanese steel makers surpassed that of Americans, who by that time were working with the oldest steel-making equipment of any industrial nation. By 1982, half of the American steel industry's capacity was idle, something that had not happened since the 1930s. In 1982 and 1983 the nation's steel makers lost a staggering six billion dollars. Today, one-third of the nation's steelworkers remain unemployed.

Workers, Stockholders, and Managers

A frequent criticism of U.S. steel makers is that several decades of record high profits made industry leaders complacent, and that they are more concerned about short-term profits than investing to keep the industry competitive. At U.S. Steel's Homestead plant, a representative of the United Steel Workers said that the company was running the plant like a used car. "They're

not going to put new tires on it, but they're going to try to keep it going. And then, when it quits, they're going to abandon it."

Responding to charges that management was to blame for run-down facilities, U.S. Steel's chairman David Roderick replied that the reason why they hadn't been modernized had nothing to do with a lack of desire on management's part. Instead, said Roderick, the source of the industry's problem was burdensome government regulations — including outdated tax laws, inadequate depreciation, and costly environmental requirements. Because of them, the firm simply didn't have the funds to modernize quickly. As Roderick put it, what is needed to turn the steel industry around is one thing, "improved profitability."

But in comparison with the other industries in which stockholders invest, the steel industry was not very profitable. As investment analyst David Healy explained, "As an analyst of the steel industry, if I saw that U.S. Steel was committing billions of dollars to modernize its old plants, or spending a similar amount of money building new steel mills, I would recommend that our clients sell their stock in the company. You're comparing a five percent return in the steel business with perhaps fourteen percent that you could earn in the average manufacturing company in the United States. Under those conditions, it doesn't make any sense to pour money into the steel business."

Roderick underlined management's dilemma when he pointed out that no industry with such low profits could expect to attract investors' dollars. Without new investments, there was very little that management could do. Roderick explained that his basic obligation as chairman was to make sure that stockholders got a reasonable return on their investment. In his words, "People don't fully appreciate that the primary duty of management is to make money. In this company, our primary objective is not to make steel. It is to make steel profitably."

As it became increasingly apparent that the company could no longer make a respectable profit by making steel, U.S. Steel responded to the demands of Wall Street by buying into more profitable ventures. It took advantage of the boom in petrochemicals by buying plastics companies. It took advantage of the real estate boom by buying a large shopping mall near Homestead, and a hotel at Disney World. And in a widely publicized deal announced in November 1981, it bought Marathon Oil for $6.6 billion in one of that year's largest mergers. After that purchase, U.S. Steel had less than 25 percent of its assets in the steel business.

Most of the residents of Homestead, Pennsylvania, were less interested in the new businesses that U.S. Steel was entering than in the old business it was leaving behind. In the spring of 1982, it announced plans to shut down the open-hearth steel operation at Homestead. As a result, Maureen Trout and several thousand other steelworkers were out of a job.

Understandably, they were bitter about U.S. Steel's decision. In the words of one steelworker, "You put in 30 years

AP/Wide World Photos

Eighteen months after announcing that U.S. Steel would close its Homestead open-hearth facility, U.S. Steel Chairman David Roderick announced that jobs for 15,400 company steelworkers would be eliminated by nationwide plant closings.

"Many people don't fully appreciate that the primary duty of management is to make money. In the case of steel companies, our primary objective is not to make steel, but to make steel profitably."
David Roderick
Chairman, U.S. Steel

> "The company has the nerve to say they don't need us anymore. Well, we need our jobs, and we want the U.S. Steel Corporation to spend a few dollars out of the millions and millions that we made for them, and to spend it in our community."
> Unemployed Steelworker
> Pittsburgh, Pennsylvania

of hard work on the open-hearth and what does the company do? They have the nerve to say 'We don't need you anymore.' U.S. Steel made its money off the steelworkers' backs. Now they're saying goodbye, and they're going to greener pastures. Well, we need our jobs. And we say they have a moral obligation to us."

Many of the workers who were laid off in Homestead were both puzzled and angry about management's priorities. They felt that at a time when management should have been reinvesting to make the Homestead plant more competitive, it was instead putting the company's assets into other businesses. And the managers of U.S. Steel were by no means alone in doing so. In 1982, U.S. corporations spent more buying each other than they did reinvesting in new plants or equipment to make their firms more productive.

From the point of view of those unemployed steelworkers, the problem is that what is in the interest of U.S. Steel's shareholders is not what is in the interest of workers, or in the best interest of the American people as a whole. In Maureen Trout's words, "The way they run the economy isn't working for us anymore. Nobody cares about anyone else except themselves."

Retool, Rethink, and Reorganize

Each of the industries that is going through this turbulent period of retooling and readjusting is distinctive in certain ways. The problems of the steel industry differ in certain respects from those of the machine tool industry, footwear manufacturers, or the printing industry. Still, the story of U.S. Steel, and the various factors that convinced its managers to close the open-hearth operation at Homestead, shed some light on the troubled state of the industrial core of the American economy.

Hearing the account of what took place in Homestead, we sympathize with Maureen Trout and thousands of other steelworkers who have been thrown out of work. Their bitterness about decisions made by the managers of U.S. Steel is understandable. But this is not a story of victims and villains. If we look for scapegoats, we are unlikely to make much progress toward a better understanding of what happened, or what should be done. After all, if the managers of U.S. Steel — or of *any* firm in a capitalist society — disregarded profits, they'd be unable to attract investors. As a result, business would come to a standstill, and no one would be assured of a job. The capitalist system that many of the residents of Homestead feel so bitter about is the same one that deserves the credit for the nation's overall prosperity, and its remarkable success in creating new jobs.

What, then, can be done about the troubled state of some of the nation's blue-collar industries, and the workers who depend upon them? Over the past few years, many proposals have been put forward — about import restrictions, domestic content legislation, and job training programs, to mention just a few — that would affect not only the steel industry but employers in other industries as well. Decisions that are made about these proposals will substantially affect the nation's economic future and employment prospects. Our goal here is to frame choices, not between one piece of legislation and another, but among the directions we might take as a nation in constructing an economic policy that accommodates our desire for reasonably secure jobs as well as our expectation of long-term economic growth — and does so in a way which shows some compassion for those who are out of work.

Choices and Consequences

In the following sections, we present three choices. The first involves one of the most hotly disputed issues, the role of the government in the economy. As David Roderick, the chairman of U.S. Steel, pointed out, there are many ways in which governmental policies impinge on the nation's industries. For years, the government has been aiding various industries through loans, tax concessions, and contracts. The government subsidizes re-

U.S. Steel a Target of Pittsburgh Protest

PITTSBURGH, July 20 — The air was clear here this morning, revealing in diamond-sharp detail the corporate headquarters towers. In nearby Duquesne, Big Dorothy stands cold and rusting. It is one of many steel-making furnaces that no longer belch smoke into the valley where the Allegheny and Monongahela Rivers join to form the Ohio. The corporate towers and the cold furnaces are symbols in a protest campaign being waged here by a coalition of clergymen and unemployed workers against businesses and executives whom the unemployed blame for their plight.

It is a campaign that has seen church services disrupted, a congregation divided, corporate executives' homes besieged, and packages of fish left to rot in a bank's safe-deposit vault. The coalition intends to step up the pace and intensity of the campaign, its leaders said at a strategy meeting Thursday night. "We have to raise the level of tension among our opposition until they react," said Charles Honeywell, the coalition's chief strategist, at a meeting in a union hall in nearby McKeesport.

The leaders attending the meeting were from two allied groups. One is a loose-knit association of about 25 clergymen, the Denominational Ministry Strategy. The other, the Network to Save the Mon/Ohio Valley, is made up of several militant union leaders and, the leaders say, about 500 unemployed workers.

At the root of the campaign is the continued high unemployment among workers in heavy industry here. Official figures for the metropolitan area show unemployment at about ten percent. But the coalition says that more than 100,000 former workers in heavy industry are no longer being counted. In some steel towns in the valley, unemployment is estimated at more than 25 percent.

Among the principal targets have been the Mellon Bank and United States Steel. Members of the group charge that Mellon has slighted its obligations to the valley while diverting its funds into overseas investments. They attack the steel company because of the mill operations it has closed. Five years ago the company employed about 30,000 workers at six large plants in the valley; fewer than 10,000 work there now.

Some coalition leaders see the area's problems as a sinister combination of business interests designed to break unions, displace high-wage workers and achieve a renaissance through a shift from heavy industry to cleaner, high-technology businesses. All attack what they describe as a deliberate disinvestment in steel. This reflects criticism that has also been heard from economists who criticize

Credit: AP/Wide World Photos

Laid off for more than two years, steelworker Paul Alexander adds his name to a petition, inscribed on a steel pipe, demanding congressional action to curb steel imports.

American steel companies for failure to modernize their processes to keep pace with foreign competitors. "They can't just dump 100,000 people and walk away," said Mr. Honeywell in an interview.

The aim of the campaign, the leaders say, is to discomfit business leaders until they are willing to negotiate aid for the unemployed and invest in job-creating enterprises. "We're trying to get across that we're after the leaders," said Dale Worton, a 32-year-old crane operator who was laid off more than two years ago. "They can't sit up there in the comfort of their homes and ignore the suffering their decisions have caused."

The most outspoken of the ministers is a 35-year-old Lutheran, the Reverend John J. Gropp, who recently lectured his bishop on "corporate evil" in a confrontation at Mr. Gropp's church in Duquesne. Equally militant are some of the union leaders, including Ronald Weisen, president of a steelworkers' local in Homestead. "We're tired of shaking hands," said Mr. Weisen, a former amateur boxer. "It's time to start shaking fists."

Article by William Robbins. Reprinted with permission, The *New York Times*, July 23, 1984.

search and development, defines antitrust policy, and tells industry what environmental regulations it must comply with.

The question is whether the steel industry's troubles — and those of other manufacturing industries — indicate too much government intervention, or too little. Perhaps the government has simply been acting in piecemeal fashion, formulating its economic policies in response to specific pressures and problems when it should be looking more broadly at the overall impact on particular industries and the nation's well-being.

So we will examine what might be done to redefine the government's role in the economy, and how that would affect the outlook for employment. In particular, we will raise a question that is at the heart of discussions about a national industrial policy: should government take a more explicit role in encouraging "sunrise" industries and discouraging uncompetitive firms in faltering industries such as steel and machine tools? If so, how would that affect people such as the steelworkers in Pennsylvania's mill towns? What would the impact of such a policy be on the nation's long-term prospects for economic prosperity?

Our second choice is about how to compete in an international economy. As we saw, one of the chief reasons why steelworkers were laid off in Homestead was that steel imports have swollen to 24 percent of the domestic market, up from 15 percent just five years ago. There is real concern — not just in steel, but also in other vital industries such as automobile manufacturing and consumer electronics — that American industry has been falling behind in a competition against foreign manufacturers who pay lower wages and, in many cases, have newer manufacturing facilities.

Should we try to preserve jobs and threatened industries by taking additional protectionist measures? Demands for import restrictions indicate there are strong pressures to do so. But protectionism has its costs: a loss of overseas markets for American-made goods, the loss of international goodwill, and a hidden cost that it imposes on American consumers. So our discussion of this second choice raises several questions: should American industries receive additional protection against foreign products? Would the benefit of the jobs that might be saved by import restrictions be outweighed by higher prices for American consumers?

The Impact of Unemployment

Our third choice poses quite a different alternative. It may be futile and — in the long run — self-defeating to try to preserve existing jobs, especially in industries that are relatively unproductive and unprofitable. The economy is a dynamic process. The work force is constantly changing in response to new circumstances. Most of the farm laborers who were displaced in the early decades of this century by agricultural technologies must have felt the same bitterness and the same sense of dislocation that the unemployed steelworkers of the Monongahela Valley feel today. But in retrospect, we can see that the fact that they were forced into new jobs was a good thing. Indeed, it was an essential prerequisite for the highly productive economy that we take for granted today. Perhaps our main concern should not be to slow down that dynamic process, but to soften its impact.

Most of the steelworkers who were thrown out of work when the Homestead mill closed down should be able to find other jobs — perhaps in other industries or in other communities. That, after all, is what has happened repeatedly to American workers who move from sectors of the work force which no longer provide jobs to growing sectors where new jobs are being created. Laid off by the steel industry without much advance notice, Paul and Maureen Trout had some difficulty finding new jobs. While unemployment compensation helped to tide them over while they were looking for new jobs, finding new jobs is especially difficult for older workers like the Trouts. Reluctant to move to a different community where job prospects might be better, the Trouts finally took lower-paying jobs that were available nearby.

The Trouts' experience of unemployment leads to our third choice: if it is self-defeating to try to preserve existing jobs, perhaps our chief concern should be to soften the impact of unemployment, to ease the transition from one job to another. But is the existing patchquilt of programs for the unemployed adequate at a time when structural unemployment is so prominent a fact of modern life?

Workers today look for different kinds of assurance about job security, or at least a commitment on the part of their employers and the government to provide assistance in the event of layoffs. Some look for a job guarantee from employers even though changes in technology and in the market may make their skills less valuable than they used to be. Some look for job retraining, even though it may not lead to employment. Others have accepted lump-sum payments from their former employers. Still others look to local and federal jobs programs for assistance.

But the underlying question is the one we want to raise: acknowledging that the economy is changing, and that today's work force requires different skills from those needed in the past, what should be done to help displaced workers? Is it fair to expect the individuals who are laid off to bear most of the burden of a changing economy? What responsibility should any of us — business, government, charities, and individuals alike — have for workers who are displaced by changing markets and new technologies?

The purpose of this issue book is to frame discussion about what should be done to ease the pains that accompany changes that are taking place in the American workplace. Our concern is to find a way to minimize the pain of joblessness for displaced workers, without damaging the nation's long-term economic prospects.

2

The Visible Hand of Uncle Sam

> "One of the most hotly disputed issues is what role the government should take. Does the decline of some of the core industries indicate too much government intervention, or too little?"

Recall for a moment what happened a few years ago when the Chrysler Corporation, on the verge of bankruptcy, appealed to the federal government for assistance. Despite some drastic measures to improve the company's balance sheet, including the closing of thirteen of its plants across the country in the previous few years, by 1980 Chrysler was on the ropes, unable to borrow any money or to pay its bills.

The members of Congress to whom Chrysler officials went with their appeal for a federal bail out were faced with a real dilemma. On the one hand, bail outs for troubled companies flatly contradict the principle of a free market. As James Buckley, then a Senator from New York, put it a few years earlier in debate about whether Congress should provide loan guarantees to the faltering Lockheed Aircraft Corporation, "If the inefficient or mismanaged firm is insulated from the free-market pressures that other businesses must face, the result is that scarce economic and human resources are squandered on enterprises whose activities do not meet the standards imposed by the marketplace."

Furthermore, as other critics of government bail outs have said, once such a precedent is established it might lead to bail outs for other firms. Taken together, those bail outs would further inflate the federal budget, compound the deficit problem, keep interest rates high, and thus weaken the economy in the long run.

On the other hand, the impact of a Chrysler bankruptcy would have set off a destructive tidal wave. Its immediate impact would have been felt in Detroit, where more than half of the company's production workers were employed. It was estimated that if Chrysler went out of business, Detroit's already high unemployment rate would have risen by an additional ten percent. The impact of Chrysler's bankruptcy would have been felt with particular severity in towns such as Wilmington, St.

Credit: John Craig

Credit: Courtesy of United Steelworkers of America

Many people hold the nation's leaders responsible for plant shutdowns and layoffs in the steel and automobile industries.

Louis, Syracuse, and Kokomo, where the company has large production facilities. It would have had a ripple effect in virtually every community where there are Chrysler dealerships. Allowing Chrysler to go under would have meant a rise in the national unemployment rate of about one percent. To the government, it would have meant an annual tax loss of about $500 million, and a bill of some $1.5 billion in welfare payments for former Chrysler employees.

One of the most concerted lobbying efforts ever witnessed in the halls of Congress was organized. Hundreds of Chrysler dealers in congressional districts across the country joined with corporate and labor leaders to urge Congress and the President that the cost of allowing Chrysler to go under was just too high. Finally, they won out. Neither the administration nor Congress was willing to assume responsibility for a Chrysler bankruptcy. With more than a billion dollars in loan guarantees from the federal government, and sacrifices valued at an equal amount by banks, workers, and the company itself, Chrysler kept its head above water.

In retrospect, the government bail out looks like a wise decision. Chrysler, like Lockheed before it, is on its feet again, and the loan it took from the government has been paid back. But the whole episode raised fundamental questions about how far this nation is willing to go in the direction of a hands-off, free market approach to the economy. It raised some basic questions, too, about what the government should do to protect jobs, to assist troubled industries, and to guide the economy as a whole.

Free Markets for a Free People

This nation was founded in revolt against the excesses of government. For more than a century one of our distinctive characteristics as a society has been our profession of the limits of governmental intervention. In the United States, economic freedom seemed a natural and necessary accompaniment to political freedom. More than other nations, we took quite seriously Adam Smith's message in *The Wealth of Nations*, which by a convenient coincidence was published in 1776.

In that book, Adam Smith tried to explain how the economic activities of a multitude of individuals could be coordinated in order to promote the interests of the society as a whole. How are the activities of individuals orchestrated so as to induce people to produce food, clothing, and housing for others they will never meet? Adam Smith's central insight was that no external coercion is necessary to promote economic behavior from which all can benefit. Individuals who intend only their own gain are led by an "invisible hand" to promote an end which was no part of their intention. In their pursuit of profit, individuals are guided by the marketplace to put their assets where they are most useful. So long as their cooperation is strictly voluntary, both parties in an exchange benefit from

it. By pursuing their own interest, individuals frequently promote the good of the society more effectively than they would if that were their sole intention.

In that simple explanation lies the basic doctrine of a free market economy. Adam Smith's conclusion was that, in the economic realm as in others, government governs best when it governs least. What the government should do to ensure the long-term health of the economy is to stay out of it, to allow the "invisible hand" to do its work in assigning labor and capital to their best use.

Although *The Wealth of Nations* has frequently been invoked as a model of how the American economy ought to work, and as a cautionary tale about what activities the government should not be involved in, government has actually had quite a visible and powerful hand in the workings of the American economy. In the nineteenth century, the federal government lent a hand in building the nation's railroad system, its canals, and its universities. In this century, it has influenced a host of products and industries, from agriculture to integrated circuits. Through its control of the money supply, tax rules, research and development grants, credit subsidies, and import restrictions, it affects the pace and direction of the economy. Through its extensive purchases of everything from communications equipment to office supplies — expenditures that are expected to amount this year to about 15 percent of the Gross National Product — the federal government has a direct impact on scores of industries.

However, the problem that an increasing number of people have become concerned about is that while the government wields enormous influence in the economy, that influence has not been used to advance any consistent economic strategy. Fearful of a state-run economy, we have created instead a haphazard economic policy that serves no well-defined purpose.

There is growing sentiment that, in the absence of an explicit national economic policy that defines which industries are most important to the nation, certain basic questions are never asked. Should we be channeling so much of the nation's capital into home construction, while so little of it goes, for example, into the machine tool industry? Rather than continuing the current practice of protecting troubled industries from foreign competition, and stepping in only when some firm is in obvious trouble, should the government take a direct hand in helping the auto and steel industries to reduce and consolidate their operations?

Such questions have been raised quite often in recent years. There is increasing concern that other industrial nations seem to be doing better than the United States in maintaining productivity growth and competing in international markets. At a time when each successive downturn in the business cycle has been worse than the previous one, some people think the government should guard against even more severe problems in the future. Many people feel that the government should define a deliberate economic policy — an industrial policy. Explicitly, and without apology to the free market, it would provide an alternative to the "invisible hand" of the marketplace. An industrial policy would make the government's role in the economy not only more visible, but — its proponents claim — more coherent. It would mean deciding upon the direction in which the nation's industrial structure ought to be evolving. And it would mean the adoption of consistent tax, loan, trade, and regulatory policies to lead the nation down that path.

Let us examine the arguments for and against industrial policy, its implications for troubled industries, and its probable impact on jobs.

The Argument for Industrial Policy

Proponents of an industrial policy feel that the nation faces a critical choice. In their view, we can choose to let market forces work, and allow our industrial rivals to surpass us, or we can formulate a coherent national industrial policy that would help to put the country back on the track of sustained growth.

What, exactly, is it that Japan and some of our other industrial competitors are doing? Recognizing that both capital and labor have to be put to new uses in a rapidly changing economy, they have formulated industrial policies explicitly designed to increase productivity and competitiveness. Japan, for example, uses a whole array of economic tools — cash subsidies to certain industries, tax incentives, export aid, import barriers, and cheap loans — to help selected industries such as

"The Chrysler bail out raised some basic questions about what the government should do to protect jobs, to assist troubled industries, and to guide the economy as a whole."

"Many would argue that ideas about 'industrial policy' smack of Soviet-style planning. I disagree. Current policies have failed because they are undisciplined and uncoordinated."
Lee Iacocca
Chairman, Chrysler Corporation

automobile makers and the electronics industry that are particularly important to that country. The industries favored by Japan's industrial policy have several advantages over their American competitors, chief among them the fact that the government provides long-term financial assistance, while their American counterparts have to depend upon private investors who put their money where it earns the highest return.

Especially at a time when some basic industries such as steel are declining, advocates of industrial policy feel that the government has to provide more assistance. They feel strongly too that tax codes which encourage American firms such as the U.S. Steel Company to engage in mergers and acquisitions rather than reinvesting in their primary business should be changed. In their view, a coherent industrial policy should reward innovation, not merger activities that simply rearrange the nation's industrial assets. The tax codes should be reformed, they feel, to permit deductions only for the modernization of plants or the purchase of new equipment.

Proponents of an industrial policy feel that one reason why government decisions affecting business and industry are frequently ineffective, or counterproductive, is that they are often made without much prior consultation with labor or business leaders. By comparison, they hold up the example of the Japanese, and their method of deciding, for example, which emerging technologies should be favored. In Japan government decisions about which industries deserve favorable tax and credit treatment are typically arrived at by consensus, after detailed conversations among trading companies, industry groups, and government analysts. One of this nation's chief goals, some feel, should be to create a high-level board of business, labor, and government leaders that would meet regularly for that purpose, to seek a consensus to guide the country's industrial development.

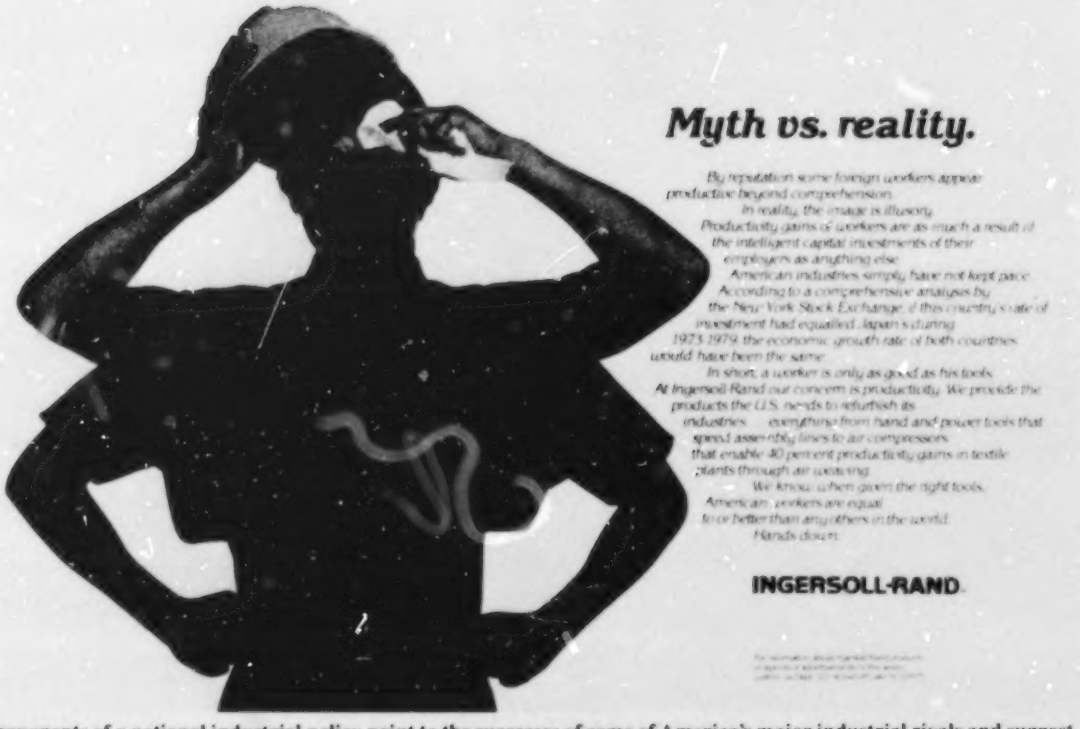
"Patient" Capital, Wise Investments

Advocates of industrial policy are convinced that it would improve upon the current situation in various ways. But its most basic objective — and its most controversial feature — is to get the government more directly involved in the investment decisions of business and industry. This nation's problem, in their view, is not a lack of inventiveness. It is, rather, that we have failed to make full use of human and capital assets to transform innovations into successful commercial products. People are particularly concerned that American manufacturers appear to be falling behind in those industrial technologies that are likely to be increasingly important in the future, such as computerized machine tools, robotics, and high-strength plastics.

The problem is that commercial development of new inventions requires "patient capital," money that can ride on high-risk ventures for as long as five or ten years before they become profitable. Corporate managers in many sectors of the American economy have the same problem that David Roderick and the other directors of the U.S. Steel Company faced. Their profits aren't high enough to attract investors.

A national industrial policy would provide an alternative by setting up a special agency with long-term investment goals. In several respects, such an agency — called a National Development Bank in one proposal — would function in much the way of the Reconstruction Finance Corporation, which provided credit to the nation's railroads in the 1930s. Through a National Development Bank, the federal govenment could make money available to industries that are particularly important to the nation, or to those industries that are likely to be most competitive in the decades ahead.

By whatever name it is called, this federally backed industrial development bank is the centerpiece of industrial policy proposals. It would be run jointly by representatives of business, labor, and management. It would have the authority to provide loans and to recommend tax breaks for certain firms or industries. It would be, in brief, a federal bank authorized to


Myth vs. reality.
By reputation some foreign workers appear productive beyond comprehension.
In reality, the image is illusory.
Productivity gains of workers are as much a result of the intelligent capital investments of their employers as anything else.
American industries simply have not kept pace.
According to a comprehensive analyses by the New York Stock Exchange, if this country's rate of investment had equalled Japan's during 1973-1979, the economic growth rate of both countries would have been the same.
In short, a worker is only as good as his tools.
At Ingersoll-Rand our concern is productivity. We provide the products the U.S. needs to refurbish its industries... everything from hand and power tools that speed assembly lines to air compressors that enable 30 percent productivity gains in textile plants through air weaving.
We know when given the right tools, American workers are equal to or better than any others in the world.
Hands down.
INGERSOLL-RAND.

Credit: Courtesy of Ingersoll-Rand

Proponents of a national industrial policy point to the successes of some of America's major industrial rivals and suggest that our government, too, should have a systematic way of identifying and encouraging promising new industries.

spend as much as $5 billion a year toward two broad goals: stimulating promising new industries, and rehabilitating older, troubled industries. With regard to troubled firms, the National Development Bank would have the power to force business to make tough decisions, as the Chrysler Corporation was forced to do before Congress approved its bail out.

The aim of a National Development Bank would not be to replace business decision making with government planning, but rather to accelerate changes that are already happening in the marketplace. Additionally, it would play an important role in declining industries such as steel, where in return for commitments from troubled companies to slim down and modernize, the Development Bank would provide some of the capital needed for that transition, and help displaced workers to retrain and relocate to other jobs. Its fundamental objective, in other words, would be to provide government assistance to troubled firms before their problems become as severe as Chrysler's problems were by 1980.

So one of the chief functions of a National Development Bank would be to make sure that sufficient capital is available to the industries that are most important to the nation and its competitive position in the world economy. That would require picking "winners" — identifying the industries that are most promising, and providing them with investment subsidies, research support, and other forms of assistance. It would also require decisions about the "losers" — the "sunset" industries that deserve to be phased out.

The inevitable accompaniment of investment in new companies is disinvestment in old ones, and that might turn out to be the most difficult task of a Development Bank. Even the advocates of industrial policy are quick to point out that any industry which lost government funds and assistance because it was regarded as a "sunset" industry would seek to change government policy. The lobbying effort on behalf of the Chrysler bail out showed how intense the pressure might be if the Development Bank chose not to come to the assistance of a troubled industry that provided jobs for a sizable number of people.

Advocates of an industrial policy don't minimize the difficulty of saying "no" under such circumstances. Still, they conclude that, on balance, an explicit industrial policy and a National Development Bank would allow the nation to compete more effectively. For that reason, it would provide jobs for more Americans.

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"Why should the government be allowed to pick winners and losers? Over time, the most efficient manager of change in the economy and the work force has been the marketplace."

The Case Against Industrial Policy

As a diagnosis of the nation's economic troubles, and as a prescription about what should be done, industrial policy is regarded by many as a promising alternative. Others, however, feel that it provides neither an accurate account of our current troubles nor a realistic solution.

Troubled by the vagueness of what is being proposed in the name of industrial policy, its critics view the nation's economic problems differently. To them, it is less true to say that the U.S. has been falling behind in the international economy than it is to observe that other nations are catching up with us, both in the technologies they use and in the skills their workers possess. It is simply not realistic to assume that American industries will ever again dominate the international economy as they did in the postwar period. It is true that some industries, such as steel, have been losing ground. But steel isn't typical of American industry as a whole. Furthermore, there is little reason to think that redirecting investments, by itself, will accomplish very much.

Most critics of industrial policy don't deny the trouble

signs in the economy. But they conclude that the drastic step of giving the government — or a panel backed by government funds — a much larger role in setting the nation's industrial course is neither promising nor appropriate. In their view, the government is chronically inefficient, so enlarging its role hardly seems a promising way to restore economic vitality. Creating a federally funded National Development Bank to subsidize certain industries would only impose a greater burden on American taxpayers. What it would amount to, in economist Alan Greenspan's words, would be "another mechanism by which the politically powerful get their hands in the till."

To many of its critics, the most troubling aspect of industrial policy is its promise to distribute subsidies by picking "winners" and "losers." Is government better able than business leaders themselves to pick the good investments? The development of government-sponsored atomic-power plants in the U.S. and the Concorde jet in France and Britain are prominent examples of government investments that turned out to be futile and very costly.

Expecting the guardians of a National Development Bank to pick the "losers," and to deny them additional resources that could be more productively employed elsewhere is, in the view of the proposal's critics, even more unlikely. The government does some things quite well, but saying "no" is not one of them. Yet a successful National Development Bank would have to say no quite often, and in the face of great opposition.

Most critics of industrial policy concede that there are occasions when it is in the public interest to set the rules of the marketplace aside and save a troubled firm such as Chrysler. But the best way of doing that is the way it's done already — on a case-by-case basis which forces firms to undergo intense public scrutiny when they seek federal assistance.

Besides, they ask, why should the government be allowed to pick winners and losers? Over time, the most efficient manager of change in the economy and the work force has been the marketplace. That is not a very comforting thought to unemployed steelworkers. But in the long run it is futile to try to second-guess the market.

Principles and Practical Matters

So the central question in the debate over industrial policy is whether the government should take a more direct role in defining the direction in which the nation's industries ought to be moving. This debate forces us to examine our assumptions about the marketplace and the government — what each of them does well, and what they are unlikely to do well. Which mechanism channels capital and labor to their best use? Is it still, as Adam Smith argued more than 200 years ago, the unassisted market? Or, as the advocates of industrial policy believe, would the outlook for jobs and the future of the economy be better if the government took a more direct role?

In part, the two sides differ about the practical matter of what the likely consequences of industrial policy and a National Development Bank would be. Proponents say that it would serve the public interest by channeling resources to the industries that most need them, thus improving our competitive position as a nation. Critics of industrial policy feel that a National Development Bank would become a political pork barrel, and that its supervisors would be under such intense political pressure that they would be unable to say no to firms and industries seeking assistance.

In another sense, this is a debate over principles. Some people firmly believe that it is a mistake to extend the economic role of the government any further. Recalling that this nation was founded in revolt against the excesses of government, they feel that we still need to guard against a government that takes on powers it should not have.

Advocates of a more explicit government role in guiding industrial development don't disparage the free market. They readily admit that it deserves credit for the growth of such entrepreneurial showcases as California's Silicon Valley, and for dynamic growth in other areas. But the nation's economy would be in better shape, they insist, if the government's role in assisting the free market were more coherent.

As things currently stand, government influences the nation's businesses and industries in many ways, but without any explicit plan or purpose: would it be better for the government to wield a more systematic economic influence? Do we need a concerted government influence to keep American industries competitive in the international economy? These are the central questions in the debate over industrial policy.

But there is another way to respond to the changes that have taken place in the international economy, and that is to protect jobs by protecting American industries against foreign competition. And that is the alternative to which we now turn.

3

Competing in an International Economy

> "There is real concern that, in various areas, American manufacturers have been losing in a competition with foreign producers. Should we try to preserve jobs and threatened industries by taking additional protectionist measures?"

In many discussions of the troubles that have led to layoffs and factory shutdowns, people don't get much further than pointing the finger of blame at each other. Workers typically blame managers for their preoccupation with short-term profits, or they point to laborsaving technologies that eliminate jobs. Managers reply by blaming unions for overpriced labor or costly benefit packages. But in the industries that have been hurt by foreign competition, there is at least one point that managers and workers agree upon. They feel that many of the troubles facing the steel, automobile, and textile industries — among others — are caused by imported goods, and that further measures should be taken to protect American manufacturers against foreign competition.

In some industries, even the mention of imported products is likely to provoke a bitter reaction. A sign in the United Auto Workers' hall in Anderson, Indiana, where unemployment recently exceeded 20 percent, reads: "The membership of Local 662 welcomes all American-made vehicles. All others may be asked to leave." In a steel-producing community in West Virginia where layoffs have resulted from sluggish car sales, one charity raised money by inviting people to vent their frustrations with a few well-placed sledgehammer blows to a Japanese-made Toyota. In Detroit, bumper stickers bear the message "Remember Pearl Harbor" — a vivid reminder not of World War II but of an ongoing trade war that has caused more than a few casualties in this city whose fate is so closely tied to that of the auto industry.

One industry after another has appealed for higher tariffs, quotas, and trade barriers to restrict the sale of foreign products in the United States. Those petitions for protection against foreign products have not fallen on deaf ears. Increasingly, relief against imported goods has been provided — to steel makers and automakers, to textile producers, even to motorcycle manufacturers and mushroom growers. Fully one-third of all American-made products are now protected in some way from foreign competition, and the trend is toward more protection. The number of petitions for additional trade barriers has tripled over the past five years.

The Competitive Edge

To some, this recent wave of protectionist pressures recalls the infamous Hawley-Smoot Tariff. During the 1920s, tariff rates climbed — first to protect agricultural goods against foreign competition, and then to protect other goods. In 1929, as a consequence of intense protectionist pressure, Congress passed the Hawley-Smoot Act, which set tariffs at their highest level ever. As a result, the price of many imported products was more than 50 percent greater than their original value. Because imported goods were suddenly quite expensive, sales declined. In retaliation, European nations erected formidable barriers of their own, which crippled international trade. Most economists

agree that high trade barriers were one of the chief causes of the Great Depression.

Learning from their mistake, most nations lowered trade barriers substantially in the four decades between the Great Depression and the early 1970s. Liberal trade policies contributed to the general prosperity of the postwar period. And America was one of the chief beneficiaries of that abundant flow of international trade. In fact, during the 1950s and 1960s Americans manufactured about one quarter of all the manufactured goods on the world market.

Gradually, however, Japan and the industrial nations of Europe posed an increasing economic challenge. Newly industrialized countries such as Taiwan, Brazil, and South Korea, which as recently as the early 1970s were mainly importing steel, appliances, and other American-manufactured goods, began not only to manufacture but also to export many goods at competitive prices. As a result, American manufacturers in various markets lost the competitive edge they had enjoyed in the postwar period. As newly industrialized nations gained economic strength and started exporting goods ranging from consumer electronics to textiles and steel, the whole arena of international trade was transformed. And a new wave of protectionist pressures began.

There are three reasons why American manufacturers of some products find it difficult to compete in the international marketplace, and why they eagerly seek trade quotas and tariffs to stem the tide of foreign products. The first of these factors is that, relative to the value of foreign currencies, the American dollar is now quite strong. That's good news for American tourists traveling abroad, because it means that their dollars buy more foreign goods. And it is good news for American consumers who buy imported goods. Over the past five years, the dollar has increased in value by almost 50 percent relative to most foreign currencies. That provides, in effect, a subsidy for the cost of foreign goods. A strong dollar lowers the price of imported goods ranging from tea to Toyotas.

But the other side of that coin is what worries American manufacturers. While a strong dollar benefits American consumers, it poses a real problem for producers because it makes American goods more expensive abroad. A strong dollar imposes what amounts to a tax on all American-made goods, making them more expensive in foreign markets. And so, paradoxically, a stronger dollar makes it difficult for American manufacturers to compete with foreign producers. In the words of U.S. trade representative William Brock, "The explosion in the price of the dollar has made life more difficult than all the trade barriers in all the countries of the world put together."

Two additional factors favor foreign producers. One of the advantages that newly industrialized nations enjoy is that wages are much lower in most cases than the wages paid to their counterparts in the United States. For example, steelworkers in

Credit: Copyright Jean-Louis Atlan/Sygma

Trade Laws Which Protect American Industries

Recent appeals by the steel industry for import restrictions on steel raise some fundamental questions about when the government should step in to regulate the flow of foreign goods into this country. As this list suggests, existing trade laws affect imports in many areas.

- **Import Relief** (Trade Act of 1974) — This act allows the federal government to investigate threats to American industry created by imported goods and to provide relief by creating quotas.
- **Market Disruption Rules** — These rules were established in order to control imports from communist countries if they seem to be disturbing the American market.
- **Meat Import Quotas** — The American meat industry is protected by limits on the amount of imported meat, particularly from South America.
- **Safeguarding National Security** (Trade Expansion Act of 1962) — The U.S. can keep out goods on the grounds that national security demands a strong American industry; for example, the U.S. protects the domestic weapons industry.
- **Agricultural Adjustment Act** — Some dairy products are currently protected under these laws; so are peanuts, cotton, and sugar.
- **Protection of Agricultural or Textile Products** (Agricultural Act of 1956) — The government is empowered to protect agricultural and textile products through quotas or tariffs.
- **Anti-Dumping Laws** — If the government determines that a foreign country is flooding the American market, it can charge the foreign competitor with dumping, and initiate legal proceedings against that country.
- **Cost Equalization** — The U.S. can protect itself against foreign nations selling their products below fair prices by investigating those practices and changing the price on goods when they enter this country.

Since 1981, three sets of major trade restrictions have been passed. Japanese automakers agreed to an annual import ceiling. Several new agreements — with Japan, European Common Market nations, and other producers of specialty steel products — define quotas on the amount of foreign steel that can be sold in this country. And a third agreement scheduled to go into effect in September 1984, will provide increased protection for domestic textile producers.

Brazil and South Korea earn only about 25 percent of what American steelworkers earn. Even in Japan, where wages are high relative to emerging nations like Taiwan, workers are paid substantially less on average than their American counterparts. In the Japanese automobile industry, for example, workers still get about $8 an hour less than assembly line workers in Detroit. Especially in labor-intensive industries, which turn out products requiring a good deal of human labor, the wage advantage of foreign producers makes them formidable competitors.

There is a third factor which favors foreign producers. In many countries, the government subsidizes the cost of producing certain goods by putting up the money for manufacturing facilities, or simply making up the difference between what it costs to manufacture a particular product and what it sells for. Some imported steel, for example, is manufactured by companies that receive generous government subsidies, allowing them to sell below cost. In such cases, steel is made not with the goal of showing a profit, but rather with the goal of obtaining hard currency and keeping unemployment down in the country where it is produced. American steel makers point out that some of their foreign competitors are selling at 30 percent below cost, and getting their governments to cover their losses. Under those circumstances American steel makers say it's virtually impossible to compete effectively.

Fair Trade in Steel

If you combine those three factors — the advantage that a strong dollar gives to foreign producers, low wages, and government subsidies which allow some foreign producers to sell below cost — foreign manufacturers have a significant edge in many product areas. And that's why many people feel that additional measures are called for to protect American industries and American workers.

Listen, for example, to the case that the steel industry makes for further import restrictions. As we noted, part of the reason why so many American steelworkers have been laid off is that steel imports have swollen to 24 percent of the domestic market, up from 15 percent just five years ago. That tide of low-cost imported steel, as well as its depressing effect on steel prices, has pared down the industry's profits, led to scores of plant shutdowns, and helped to throw more than 100,000 American steelworkers out of work. "Unless we stop the flood of steel into this country," says Robert B. Peabody, president of the American Iron and Steel Institute, "it's inevitable that there will be more shutdowns and layoffs."

The industry feels that the only adequate solution is trade quotas which would roll back imports to their less threatening levels of a few years ago. So the industry is pressing Congress to pass the Fair Trade in Steel Act of 1984, which would limit imports to 15 percent of domestic consumption for five years. In addition, Bethlehem Steel and the United Steelworkers of

Credit: C.P. Houston

In addition to automobile manufacturers, other industries are also sounding the alarm and seeking government protection from foreign imports.

America are petitioning the Trade Commission for additional quotas on certain steel products — a petition that the President must accept or reject by the end of September.

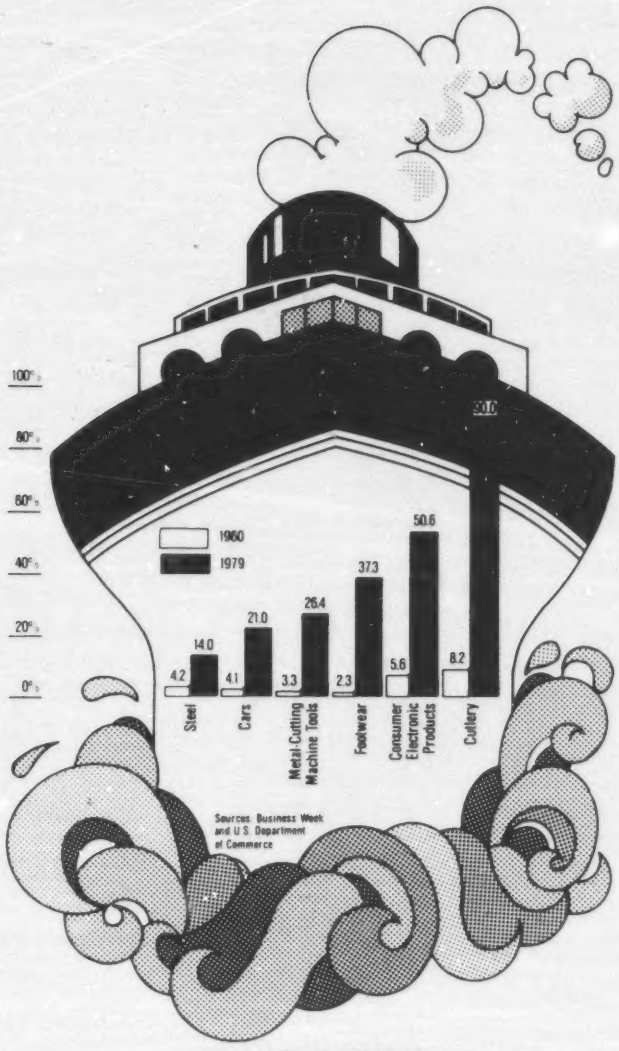
Restricting Auto Imports

The automobile industry makes a similar case for protection against foreign goods. Industry spokesmen point out that in the two decades between 1960 and 1980 the share of domestic car sales among U.S. manufacturers dropped from 96 percent to 73 percent of the market. Today, there seem to be as many Datsuns, Toyotas, and Hondas on American roads as there are Fords and Chevrolets.

After a loss of $4 billion in 1980, the Big Three auto companies insisted that they needed some breathing room to get back on their feet. They sought a three-year freeze on Japanese imports, during which time they could rethink and retool to meet the challenge from foreign producers. Since the Japanese Ministry of International Trade and Industry wanted to avoid harsher protectionist measures on the part of the American government, it agreed to hold Japanese auto exports to their 1980 level of 1.65 million cars, or about 20 percent of the U.S. market.

Judging by the profits of American auto companies in 1983 and 1984, those quotas — combined with changes in styling, engineering, and production methods — did make a difference.

The question is whether the recently ailing auto industry is now well enough to make it on its own. Ford Motor Chairman Philip Caldwell doesn't think it is. "When a patient is just recovering from pneumonia," he says, "it doesn't make sense to open the windows and let the cold air blow in." However, that is what trade representative William Brock advocates. If Brock has his way, the trade window will be wide open to Japanese cars in 1985, for the first time in four years.



Foreign Goods in U.S. Markets
(Imports as percent of consumption)

The auto industry is seeking protection of another sort, too. It has been lobbying for a "domestic content" bill that Congress is now considering, requiring that 90 percent of the material and labor content of cars sold in the United States would come from this country. If it is passed, that measure would require many foreign producers who want to sell to America to set up shop here, or at least to build their cars with many American-made components.

Hard Times in the Shoe Business

It isn't just the industrial giants who say they need further protectionist measures. Ask Stanley Barr, owner of a factory in Seabrook, New Hampshire, that has been making shoes for half a century, how he feels about foreign competition. Barr says his firm can't compete with the lower-priced shoes made abroad.

The shoe industry used to be a big business in New England, and it still employs 32,000 people in the region. But it is a labor-intensive industry, and that's the problem. The average wage of workers in the American shoe business is almost $7 an hour. Korean shoe workers earn less than $1 an hour — and that is true also of their counterparts in other countries that now produce so many shoes, such as Brazil and Taiwan.

Between 1977 and 1981, import quotas on shoes provided temporary protection for domestic producers, and they allowed some New England manufacturers to invest in new plants and equipment. But the Trade Commission has turned down the industry's petition for further relief. Without such quotas, Stanley Barr says that he simply can't compete effectively anymore. So his shoe factory in Seabrook will be shutting down and its 200 employees will have to seek jobs elsewhere.

The Case for Free Trade

In the case of trade restrictions for the shoe business, the decision has already been made to deny further protection against foreign competitors. But decisions have not yet been made on the petitions of the steel industry, the auto industry, and hundreds of others for additional protection. The question is whether additional trade barriers should be erected, and what their effect would be — both on the industries they are designed to protect, and on the economy's long-term prospects.

Our daily lives are filled with the evidence of international commerce. Imagine for a moment how different things would be if there were no foreign trade. The breakfast table would hold no Indian tea, no Colombian coffee, no bananas. There would be no shirts from Taiwan, no shoes from Tokyo, no fashions from Paris. And there would be no music from London or Liverpool. Less evident but no less important is the fact that without foreign trade there would be no market for some 20 percent of our industrial goods and 40 percent of our agricultural products that are produced for export.

That is what concerns the proponents of a liberal trade

policy. They fear that a new wave of protectionism could open a chamber of economic horrors, just as the restrictive tariffs of the 1920s that were intended as protective measures ended up damaging the economy. One argument for free trade is that any restrictive measure might provoke retaliatory measures in nations that we rely upon as markets for exported goods. If the gates of international trade were slammed shut, American steel makers might cheer, but farmers who sell their soybeans and corn in foreign markets would be in real trouble.

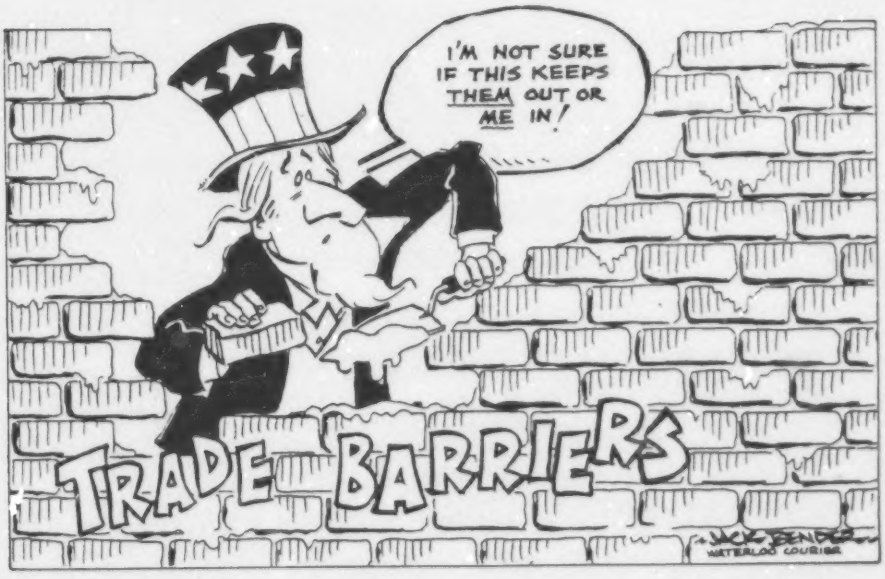
It is important to remember that while industries such as steel and textiles have been hurt by foreign competition, others compete quite successfully in the international marketplace, and make substantial profits from foreign trade — and those profits lead to additional jobs. Most of the job losses that have resulted from international trade have been in these four industries: steel, auto, textile, and shoes. In other product areas, including computers and communication equipment, aerospace, and household appliances, American manufacturers retain a strong position in international markets. One recent study came to the conclusion that if you set aside autos, steel, textiles, and shoes, foreign demand for American-made products is responsible for more than 70,000 new jobs in this country each year.

So while international trade has reduced the number of jobs available in this country in certain industries, it has increased the number of jobs available in other industries. One reason to oppose further trade restrictions intended to protect jobs in the auto or steel industry is that they might provoke retaliatory restrictions, which would cut down on the foreign sales of American goods, and the jobs required to produce them.

Trade quotas and other import restrictions are also criticized for another reason. Some people regard them as a palliative that keeps us from coming to terms with new economic realities. Protecting troubled industries such as steel and the auto industry, in their view, is the worst thing we could do. It amounts to rewarding inefficiency and discouraging productivity, thus lowering overall economic growth. In hearings before a Senate subcommittee in May 1982, Senator Paul Tsongas of Massachusetts made the point quite vividly. "Protection is an opiate that delays our coming to grips with the real enemy, which is our inability to compete with other industrial economies." If we're concerned about sales, profits, and preserving jobs in the long run, perhaps our only option is to gear up to become more competitive in the international economy.

There is a third reason why many people oppose protectionism: it drives up prices. Consider, for example, the impact of restrictions on cars imported from Japan. The reason why so many foreign cars are available here is that there is a demand for them. In this market, as in any other, if the number of Japanese cars available goes down because of import quotas, their average price will go up. Furthermore, with fewer Japanese cars on the market, there is less pressure on American

"Everyone is against protectionism in the abstract. That is easy. It is another matter to make the hard, courageous choices when it is your industry or your business that is hurt by foreign competition."
William Brock
U.S. Trade Representative



Credit: Courtesy of Jack Bender/*Waterloo Courier*

manufacturers to keep their prices down. Economists estimate that the agreement to restrict Japanese auto imports increased the average price of American cars by about $1,000.

The same logic applies in the steel industry. While supporters of the proposal to set stricter quotas on imported steel praise it as a measure that would bolster the ailing steel industry, its opponents point out that such quotas inflate steel prices. By some estimates, the additional restrictions on imported steel that are now being considered would raise steel prices by as much as 20 percent. That comes to ten billion dollars a year, and consumers would end up paying for it.

Such quotas would indeed benefit the steel industry. They might prevent further layoffs and plant shutdowns. But they might also cause job losses in non-protected industries. Quotas would raise the costs of steel-consuming industries, thus making them less competitive internationally. So the effects of quotas are inherently inequitable: they siphon consumer dollars away from non-protected industries, and toward the industries that are successful in their petitions for more protection.

Protectionism: Pro and Con

Much is at stake in this debate about protectionism. Proponents of additional trade restrictions argue that it is insensitive and self-defeating to ignore the devastation that has resulted from declining industries reeling under the impact of foreign goods. Further, they insist that protection is justified because many foreign providers have "dumped" their products here at low prices to gain a foothold in the American market. The reason why some foreign producers have a competitive edge is that they have an unfair advantage.

Critics of trade quotas admit that such measures would improve the balance sheets of many American manufacturers, and slow the loss of $20-an-hour jobs in the "Rust Bowl." But such temporary protection won't provide a long-term cure for what ails such industries as steel and machine tools. Meanwhile, all the rest of us would pay indirectly for those protectionist measures. As callous as it sounds, what the government should do is stand back and let the harsh medicine of the marketplace work. If troubled industries have to restructure, they should do it now — not later when the trade quotas expire.

Opponents of further protectionist measures feel that any action which siphons dollars and jobs from one sector of the economy to another, as trade restrictions for certain products are doing, is bound to be unfair. In their view, the costs of protectionism — the loss of international goodwill, the loss of overseas markets for American exports, and the hidden tax that quotas impose on American consumers — outweigh the benefits. Jobs *are* important, but they can be preserved in the long run only by a competitive labor force, not by one which is protected by an elaborate system of restrictions on imported goods.

Those are two very different views of protectionism, its benefits and costs. They are viewpoints that will be prominent in the news over the coming months as industries line up at the Trade Commission and at the White House asking for further protection against foreign competition.

What Do We Owe to the Unemployed?

> "We have come to recognize the human cost of unemployment. Questions have been raised about the existing patchquilt of programs and benefits for the unemployed. What kind of safety net should be provided for those who cannot find work?"

There is another theme in the debate about jobs and the jobless, and it points to a third choice that is quite different from the first two we have considered. In the previous two sections, we examined ways in which the pace of change in the economy and the labor force might be slowed down to protect troubled industries and jobs through subsidies and trade barriers. A great many measures have been proposed to keep as many people employed as possible. One proposal now being discussed in Washington would provide publicly funded jobs for people whose unemployment insurance is exhausted and who live in areas with declining industrial employment. Over the past few years, scores of factories or mills that are on the verge of closing down have been bought out by employees determined to keep them going even if corporate managers no longer consider them to be profitable.

Despite such efforts, however, a fairly high rate of unemployment may be inevitable in a dynamic economy. The introduction of new technologies means that employers need workers with different skills, and — in many cases — fewer workers to turn out their product. The situation of the printing industry is typical. As Walter Voss, President of Meredith/Burda, one of the nation's largest printers explains, "In many parts of the printing industry, workers are still lugging around rolls of paper, the same way it's always been done." But new technologies ranging from computerized typesetting equipment to changes in the production line are being introduced. With those technologies, Voss anticipates that the company will be able to handle its current work load with 20 percent fewer workers.

If it is self-defeating in the long run to try to preserve existing jobs, perhaps our chief concern should be to soften the impact of unemployment, and to ease the transition from one job to another.

The "Safety Net"

There is no question about the harsh impact of layoffs for workers who have no realistic prospect of returning to their former jobs. Like any other serious loss, this one is frequently accompanied by emotional turmoil, stress-related health problems, and family tensions. In some communities where unemployment has been particularly severe, there has been a perceptible rise in the number of suicides and homicides, in admissions to mental hospitals and state prisons.

The strains that so frequently accompany unemployment have not gone unrecognized. For years, it has been one of the goals of public policy to buffer the impact of unemployment. The most prominent aspect of that "safety net" is the unemployment insurance system, which has offered assistance to dislocated workers for almost 50 years. In the depth of the Great Depression, the nation experienced its highest level of unemployment — about 25 percent. That led, among other things, to violent clashes between labor and management, and to the

Credit: AP Wide World Photos

"When I got a job in the steel industry, I figured I was secure, that I had everything going for me. Now all of a sudden I ain't got nothing. My house is up for sale, but nobody's buying because no one has any money. What am I going to do?"
Unemployed Steelworker
Pittsburgh, Pennsylvania

largest following ever for the American Communist Party. In 1935, the nation set out on a new course by assuring a minimum income to the unemployed. Although the duration and level of benefits vary from state to state, unemployment insurance is a very important part of the "safety net." In Massachusetts, for example, people who lose their jobs can count on receiving half of their average weekly wage — up to the current maximum of $185 a week. Those benefits are available under normal circumstances for a period of 30 weeks.

Other government programs for the jobless have been added over the years. Food stamps, Medicaid, and Aid to Families with Dependent Children all help to cushion the impact of unemployment. In addition, many workers who lose their jobs receive union benefits or lump-sum payments from their employers.

In recent years, a great many proposals for extending that "safety net" have been made. Those proposals range from an extension of unemployment benefits to legislation that would require companies to tell employees at least 90 days in advance if their plant is going to be shut down. Some of the proposals would extend the government's obligation to the unemployed, while others would define new obligations on the part of employers.

There are three questions here which deserve wide public debate. First, is the existing "safety net" sufficient? If it is not, what else should be done for the unemployed? And who should be responsible for those additional measures?

Let us examine some of these proposals by looking at their main objectives. Some people feel that the "safety net" should be strengthened by providing additional benefits. Others feel that new efforts should focus on retraining. Still others are convinced that what the unemployed need most is additional assistance in locating new jobs.

Extended Benefits

To some people, the chief flaw in the "safety net" is that its protection doesn't last long enough. In most states, benefits run out after 26 weeks. Six months of benefits may be sufficient for the people for whom the unemployment insurance program was originally designed — workers who are temporarily laid off and can expect to return to their original job. But for the structurally unemployed like the Trout's of Homestead, Pennsylvania, it's another matter entirely. Theirs is a more fundamental transition, and one that typically takes longer than six months.

Recent statistics show that of the nation's 8.8 million unemployed, 2.3 million have been out of work for more than six months, and official unemployment statistics undoubtedly underestimate the extent of the problem because they overlook millions of people who have given up looking for work. Neither do those statistics tell us anything about people who were forced

into early retirement by layoffs, or the people who have jobs once again, but in part-time, low-paying positions. The author of one study of economic losses that result from job displacement concludes that while many workers eventually get back to their previous wage level, it frequently takes as long as five years.

Considering the severity of the transition that many of the nation's displaced workers experience, some people feel that we owe them benefits for more than 26 weeks. We already recognize that during periods of particularly high unemployment, benefits should be extended for a few more months. The trade adjustment assistance law, which provides extended compensation for workers who lose their jobs because of foreign competition, recognizes the same principle. Some people feel that *all* of the structurally unemployed should be regarded as victims of events beyond their control. For that reason, they should be eligible for more than 26 weeks of benefits.

The response to that proposal to extend benefits is both simple and direct. We have to get into the habit of putting a price tag on our compassion, others reply. The bill for existing unemployment insurance benefits is already quite high. By one estimate, about a third of the nation's bill of roughly $30 billion a year for unemployment insurance goes to dislocated workers. Extending the benefit period would require higher taxes on employers who pay into the unemployment insurance fund. And it would create an additional drain on the federal government. At current benefit levels, each time the unemployment rate increases by one percentage point it costs the federal government an additional $2.5 billion for benefits.

The burden of extended benefits would be particularly heavy for the states in the Northeast and the Midwest which include so many of the long-term unemployed. States such as Michigan, Ohio, Pennsylvania, and Illinois have already been forced to borrow from the federal government to cover their part of the federal unemployment compensation fund. In some of these states, tax revenues have declined because so many people are out of work. Yet the unemployed make great demands for unemployment compensation and social services. In some of these states that include many of the nation's long-term unemployed, officials conclude that the only way to pay for extended benefits would be to impose higher taxes. Yet higher taxes would drive away the businesses these states sorely need.

New Skills for New Jobs

Others feel that the best way to respond to the problems of dislocated workers is not to provide more extensive benefits for them, but to provide something else. From their perspective, what is wrong with the existing system of benefits and programs for the unemployed is that it does not provide what displaced workers most need — the stimulus and the facilities for learning new skills. The state offices which administer the unemploy-

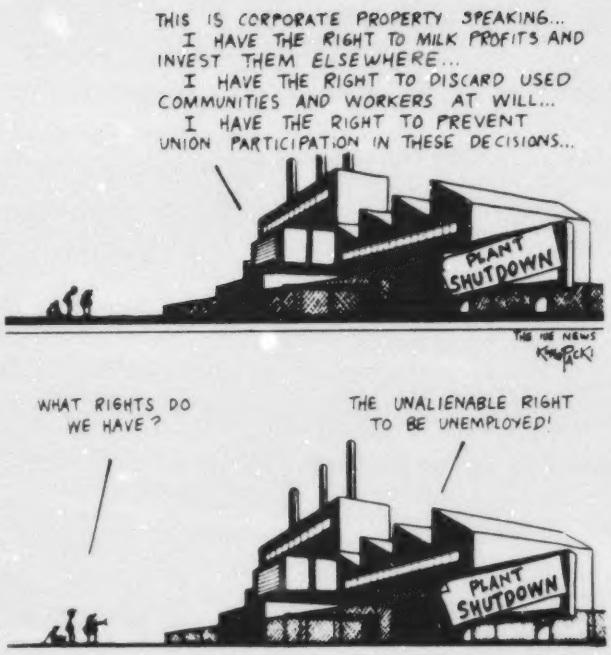
Work-Sharing: A Modest Proposal

Economist Robert Theobald offers a radically different answer to the question of what we owe to the unemployed. We owe it to ourselves and to the unemployed, he says, to discard the very concept of full employment — whether it is defined at four percent, as it was in the 1960s, or at seven percent, as it is today. Because of modern technology, says Theobald, more work can be accomplished today by fewer workers. What is important is not to create additional jobs, but to recognize that existing jobs should be spread around.

That is a simple and appealing solution to the problem of joblessness. But it raises a basic question: many people would no doubt agree to work less, but would they be willing to earn less?

That has become a timely and controversial question in Europe, where work-sharing is being discussed as a practical solution to a serious unemployment problem. In May, one of West Germany's biggest unions, the metal workers' union, began striking in support of a 35-hour work week with no pay cuts. Union spokesmen argue that if every European worked five hours less per week, the unemployment problem would be solved. Others regard work-sharing as a hopelessly impractical proposal, partly because there is great demand for some skills, and little demand for unskilled laborers.

Still, work-sharing is taken seriously in Europe, and not just by the unions. In Holland, where the 14.9 percent unemployment rate is one of Europe's highest, the government has proposed shortening the work week by a few hours, while also cutting pay. So work-sharing, which is generally considered a utopian solution in the United States, is likely to be a prominent item on the European agenda of social and economic reform.


THIS IS CORPORATE PROPERTY SPEAKING...
I HAVE THE RIGHT TO MILK PROFITS AND INVEST THEM ELSEWHERE...
I HAVE THE RIGHT TO DISCARD USED COMMUNITIES AND WORKERS AT WILL...
I HAVE THE RIGHT TO PREVENT UNION PARTICIPATION IN THESE DECISIONS...
PLANT SHUTDOWN
WHAT RIGHTS DO WE HAVE?
THE UNALIENABLE RIGHT TO BE UNEMPLOYED!
PLANT SHUTDOWN

Credit: Courtesy of United Steelworkers of America

When forced to shut down plants that are no longer profitable, companies provide assistance to laid-off workers — job search counseling, severance pay, retraining programs — but many workers feel their employers owe them more.

ment insurance program are quite efficient at handing out unemployment checks, but they generally do very little to encourage workers to acquire new skills. Furthermore, to remain eligible for benefits in most states you must be available to take a new job immediately, and that precludes participation in a full-time training or retraining program.

Advocates of retraining feel that rather than trying to match jobs to workers, we should be making additional efforts to make sure that workers have the skills required in today's workplace. They feel that it makes far more sense for workers to switch their job skills rather than fighting to retain their old jobs. But if many dislocated workers are to be retrained it will require a new emphasis to provide appropriate training. In the words of one analyst, Stanley Schultz, "We stand last among the major industrial nations in public expenditures on job training and retraining. We must make a genuine national commitment to education and job retraining for many of our working-class citizens."

To some extent, that is already happening. Many employers are actively involved in efforts to retrain workers so that they retain them in new positions. Although the total amount of federal spending for training is less than other industrial nations spend, it is a substantial amount nonetheless — about $3 billion a year. That figure includes funds specifically designated by the 1982 Job Training Partnership Act for the retraining of displaced workers. The new law encourages local private industry councils to draw up retraining programs, on the assumption that they are in the best position to know which skills will lead to productive jobs. Still, it is estimated that existing publicly funded retraining programs help only about a quarter of all dislocated workers.

Other proposals would provide additional funds for retraining, and ask both employers and employees to share their cost. Economist Pat Choate has proposed an individual training account which resembles an Individual Retirement Account. Under this arrangement, both the employer and the employee would pay about one percent of the worker's wages — up to $250 a year — into a tax-free, interest-earning account held by the Treasury Department. Payments into that account would stop when the total reached $4,000. If the employee lost his or her job, that amount would be used to pay for retraining. What is distinctive about this proposal is that it would provide a retraining cushion that displaced workers could rely on, to which the individual, the employer and the government all contribute.

The obvious objection to any such proposal is that, like proposals to extend unemployment benefits, it would cost more than the existing system, and the money would have to come out of the pockets of employers and taxpayers. The cost of intensive retraining is estimated to be about $4,000 per trainee, and that adds up quite rapidly when you consider that hundreds of thousands of displaced workers are interested in new skills and new jobs.

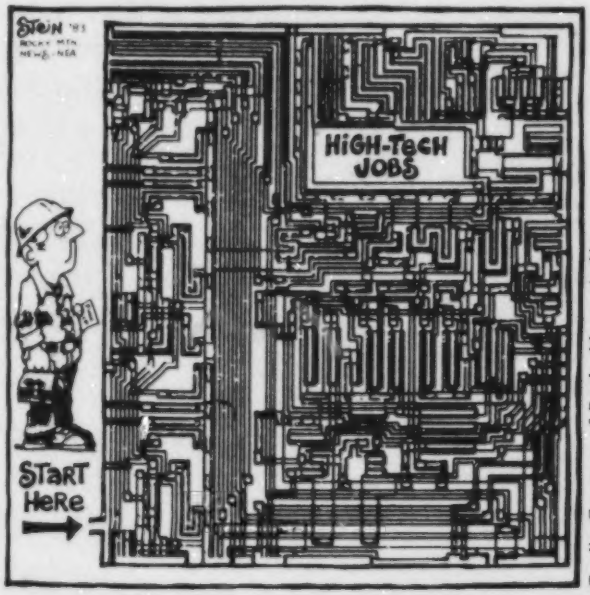
Managing Change in the Workplace

In the absence of clearly defined rights for workers, companies differ in their approach to plant closings, and their introduction of labor-displacing technologies in the workplace.

While some firms announce shutdowns with almost no advance notice to employees, others make a substantial effort to ease the pain of transition. What AT&T did recently prior to closing its plant in Kearny, New Jersey, shows how much a firm can do. The Kearny plant had been producing hardware for the Bell system for 60 years. When company officials decided to replace that facility with another in Dallas, they set up a labor-management team that brought plant managers together with the Kearny local of the Brotherhood of Electrical Workers to carry out the transition. In advance of the closing, explanations were provided of the workers' relocation rights, and their retirement and severance benefits under the union contract. For the workers who chose not to relocate to Texas, job search seminars were set up. With the assistance of the New Jersey Department of Labor, job training programs were conducted.

While new technologies are disrupting the labor force in many industries, some firms have made a substantial commitment to retrain workers who are no longer needed in their original jobs. At the Lynchburg, Virginia, plant of Meredith/Burda, one of the nation's largest printers, a manager explains that "we've told our workers that we need technological advances to stay competitive. If the company doesn't remain competitive, they have no job security." Several years ago, the company announced a policy that none of the skilled workers there would lose jobs as a result of new technologies. In the words of a supervisor at Meredith's Lynchburg plant, that meant that "rather than go out and hire trained machinists who were needed for some of these new technologies, we took a handful of people who are mechanically inclined and retrained them, even though it took several months for them to get up to the craft level."

But that requires a major commitment to retraining on the part of management and workers. As a standard procedure, Meredith provides special training for new technologies before they are installed at the plant. In one instance, a dozen workers were sent to West Germany for more than a year to become familiar with new printing equipment before it was installed in the Lynchburg plant.



Credit: Courtesy of *Rocky Mountain News*

Still, as illustrated by problems that have arisen in Meredith's plant in Des Moines, there are some real obstacles to retraining and relocating workers within the firm. Problems sometimes arise when workers are retrained and relocated to new positions that have a different pay scale. If, for example, a worker who received a journeyman's pay as an inspector in one department is displaced and asked to perform a new skill in a different department, should he receive the same wage? Is he worth as much to the firm in his new position?

Other problems arise over the issue of seniority, which creates a real barrier to the movement of displaced workers from one job to another. As one of Meredith's managers explains, "Seniority within a job means an awful lot to these people. Their attitude is, 'I have some sympathy for a guy who's no longer needed in some other department, and who's sent to work over here. But he should be put at the bottom of the seniority list in this department. Just because his job was eliminated, I don't want to lose seniority, to forced to work nights, or take my vacations in the middle of the winter. It was his job that was eliminated, not mine. I have some sympathy, but not that much.'"

Even in companies that have made a commitment to retain workers displaced by technology, the transition from one job to another is by no means easy.

There is a more fundamental objection to proposals which would commit more resources to retraining programs. In the words of labor force analyst Marc Bendick, "One of the first things the unemployed talk about is retraining. But I think it's the wrong way to go. Many of these workers are not well-suited for retraining. Many of the auto assembly line workers are barely high school graduates."

If, as Bendick points out, one problem is that many dislocated workers lack basic educational skills, another is that existing retraining programs often provide skills for which there is no demand.

Where the Jobs Are

If our goal is to ease the transition from one job to another, there is a third alternative. Many people feel that extensive retraining is an unnecessary luxury. What displaced workers often need most is assistance in locating a new job. Several years ago, in a study of workers often looking for new jobs in the Detroit area, researchers found that teaching applicants how and where to get jobs is more helpful than teaching the skills they need to perform new jobs. Yet most displaced workers do not have the advantage of job counseling or placement services. State employment offices generally have neither the staff nor the budget to provide information about job openings. Some people are convinced that providing up-to-date labor market information — a cheaper alternative than extending unemployment benefits or providing retraining — would give dislocated workers what they most need.

But there is an underlying question that provokes far more disagreement than the simple proposal to provide more information about job openings. A placement service that identifies job openings in another state isn't very useful to someone who is unwilling to move. And that raises the question: should the unemployed be expected to move from their communities to find new jobs?

One of the demands that people frequently make of government is to intervene where threatened factory shutdowns would lead to layoffs, and layoffs would force people to move. In one recent example, the mayor of New Bedford, Massachusetts, announced that the city is prepared to buy a local plant from the Gulf and Western Company, which has decided to shut it down. In the mayor's words, "As long as there are other alternatives, the city cannot stand aside and allow Gulf and Western to liquidate this important part of New Bedford." The alternative, he announced, was for the city to operate the firm as a municipal corporation, if no other buyer is interested in keeping the factory in business.

That is a clear example of how government can intervene to prevent unemployment in a particular community. But it is a role that some regard as shortsighted. In 1981, the President's Commission for a National Agenda for the 1980s recommended a "new perspective on aiding distressed people in urban America." The commission's main concern was to propose policies that would lead once again to a "vibrant national economy." Its report noted that if the government is primarily concerned with the health of specific cities or regions, it will only create obstacles to that larger economic goal. Accordingly, it recommended that while efforts should be made to assist individuals and families as they relocate to where the jobs are, nothing should be done by the government to slow down or reverse that trend.

The commission concluded that it is not realistic to imagine that the government can step in to arrest broad currents of economic change such as the ones that are sweeping across the industrial heartland. It is people, rather than places, that deserve to be protected from the hardships that accompany these massive changes in the economy. What the government should do is to assist dislocated workers in their migration to the regions where new job opportunities exist.

That proposal from the 1981 President's Commission was greeted by a storm of protest. Congressman Robert Edgar, then chairman of the Northeast-Midwest Congressional Coalition, said the report "is wholly unrealistic and totally ignores the practical steps that could be taken to save declining cities."

The commission report posed some tough questions about what displaced workers and their families should be expected to do for themselves. In Pittsburgh, in Detroit, and in other industrial cities, one of the most troublesome questions for the unemployed is whether it will be necessary to move hundreds or thousands of miles to find new jobs. Even in the most depressed areas, people develop intense ties to their local community, and they are very reluctant to pull up stakes and move. Yet the President's Commission concluded that this is what *must* happen.

But that is a question, not a foregone conclusion — and it is a question that the public should be debating. Is it fair for the individuals who are laid off to bear most of the burden of a changing economy? What is the best way of balancing our compassion for the unemployed with our desire for continued economic growth? Which, if any, of these proposals for extending the "safety net" and easing the transition from one job to another is worth pursuing?

Should American firms, like Japanese corporations, guarantee lifetime employment regardless of changes in the workplace? In industries that are not growing rapidly, that might reduce profits and lead to modest raises, at best, for most workers. It would, however, provide an alternative to our current system and a response to the problem of joblessness. Like two of the alternatives we reviewed, extending unemployment benefits or providing extensive retraining for displaced workers, this is a proposal worth considering. The question is whether any of these alternatives seems promising as a way to ease the painful transition that hundreds of thousands of displaced workers are making from one job to another.

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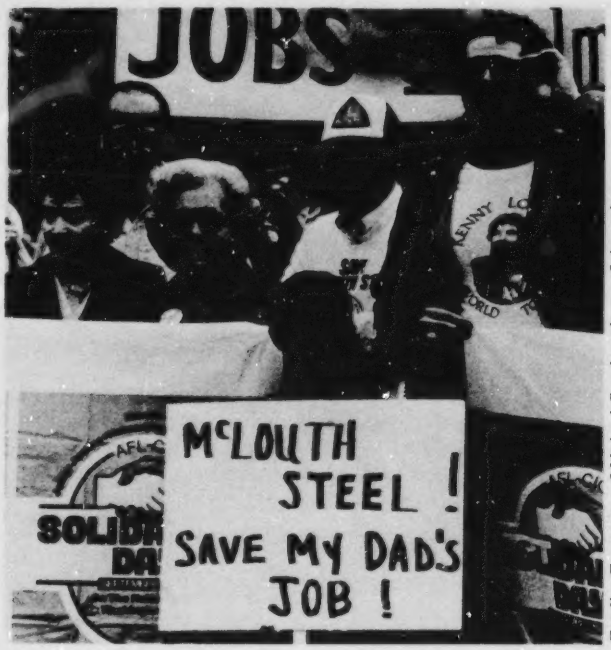
Help Wanted

So we return to where we started, to the problems facing manufacturers in America's troubled industries, problems that have led to unemployment for hundreds of thousands of skilled blue-collar workers. For almost 40 years, since President Truman signed into law the Employment Act of 1946, full employment has been a goal of national economic policy. Underlying that act and its subsequent affirmations is the belief that every American who can work and wants to work should have the opportunity to do so.

Actually, something less than full employment has been our objective in recent years. In a dynamic economy, some people are moving from one job to another at any given moment; that is normal, unavoidable. It is also assumed that anything approaching full employment would be inflationary. So the more realistic objective has been not full employment, but an "acceptable" level of unemployment — a figure which in the 1960s was about three percent, and is now about six or seven percent. The problem is that unemployment at that level may be "acceptable" to policymakers, but it is hardly acceptable if you happen to be one of the millions of individuals who are out of work.

Unemployment is particularly galling to the individuals we have been focusing on — skilled workers who formerly held high-paying jobs in some of the nation's core industries and are now out of work, with no realistic prospect of returning to their former jobs. They are dislocated workers who are eager to return to work, people who are bewildered by rapid changes in the labor force, and angry about the fact that the economic recovery which so many other Americans are enjoying seems to have passed them by.

> "What we haven't yet done is decide how to ease the pains that accompany massive changes in the workplace. For millions of Americans who are the victims of those changes, that is an urgent matter."



Credit: Courtesy of United Steelworkers of America

"The way they run the country and our economy just isn't working for us anymore. Nobody cares about anybody else except themselves. There has to be a new way. I think we're going to have to put our heads together and find it."
Maureen Trout
Former Steelworker

Different Diagnoses

One reason why people differ in their prescriptions about what ought to be done about the "blue-collar blues" is that they differ in their diagnoses of the problem. Some people regard the structural unemployment that is now most evident among steel and auto workers as the unfortunate but inevitable manifestation of technological change. As one form of work becomes outdated, it is replaced by another. Just as farm workers were displaced by agricultural technology, and linotype operators lost their jobs when computerized typesetting systems were put into place, what is happening in the steel industry represents a shift to new products, new consumption patterns, new production methods. If your diagnosis is that current problems are simply the most recent manifestation of an ongoing economic process, you are unlikely to conclude that any substantial change of course is necessary.

In economist Anthony Carnavale's words, "If you look at the history of dislocation, you see that the problem now is no more severe than it has been since the end of World War II." In his view, the current concern about dislocated workers "reflects the reaction on the part of people when things are not going well in the labor market to blame machines and foreigners. The fact that jobs aren't plentiful makes it seem as if the old rules don't apply anymore."

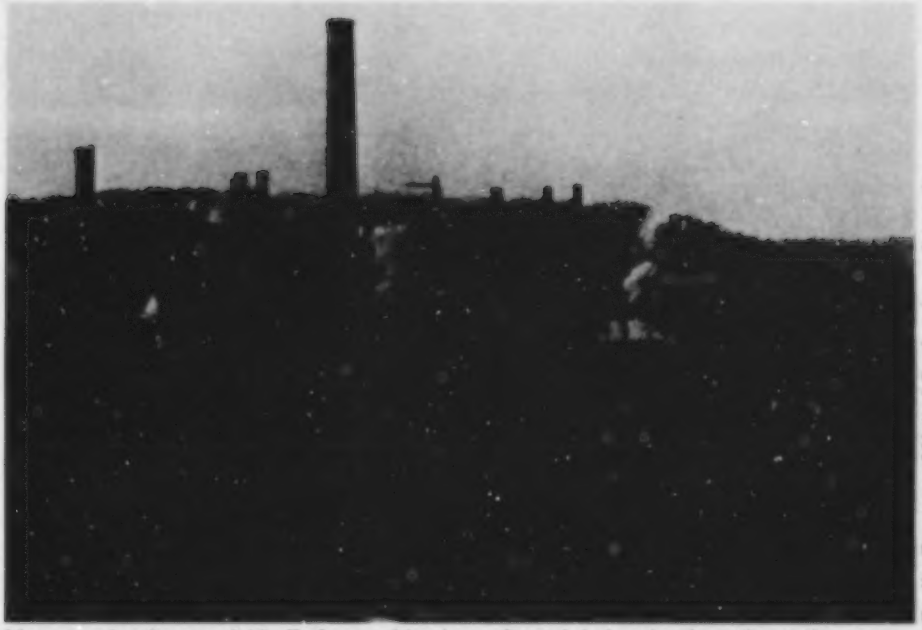
Others, however, take quite a different view of the problem. They regard the "blue-collar blues" as evidence of dislocation that is occurring at a much faster pace than in the past. To their way of thinking, a combination of factors — stiffer import competition, the transfer of plants to foreign nations, overpriced labor, shortsighted management, insufficient investment capital, and the rapid introduction of laborsaving technologies into the workplace — has created a threatening situation, and one that demands new initiatives.

What Should Be Done?

What then should be done about troubled industries and displaced workers? Let us review the three choices that have been presented, how they would affect the outlook for jobs, and how they would affect economic prospects over the long term.

The first of these three choices is to respond to the problems of troubled industries and unemployed laborers by substantially redefining the government's role in the economy. At the center of the debate about an industrial policy is a question about whether the government should take a more direct role in influencing investment decisions, encouraging "sunrise" industries, and helping troubled industries to retool and reorganize. What is at issue here is whether a "free market" is the best manager of change, or whether the government could, by taking a more direct role, facilitate that change.

Our second choice responds to the problems of displaced workers by providing additional trade barriers to protect the



Credit: Courtesy of United Steelworkers of America

Many people who were laid off after working in smokestack industries share the sentiments expressed by unemployed steelworker Maureen Trout: "I believed in the American dream. I thought as long as you were willing to work, the sky would be the limit. I always figured that if I was willing to go out there and get it, it was there. It's not there anymore."

steel and auto industries —among others — against foreign competition. There is no question that these industries have been hurt by foreign competition and that import restrictions would save jobs. But there are some real questions about the impact of trade restrictions, their tendency to inflate prices, and their potential for provoking trade wars that would damage other American industries that successfully export their products.

Our third choice responds to the problem of displaced workers in quite a different way, by trying to ease the transitions that result from changing economic conditions through the provision of reasonable unemployment compensation, training opportunities, and relocation assistance. Such measures would not fully insulate workers and communities from the pains of economic change. But they would buffer the impact of joblessness, and ease the transition from one job to another.

Like the choices this nation faces in other areas, each of these choices has its costs. An industrial policy would enlarge the role of the government in the economy, at a time when many would prefer to see its overall role — and its budget — scaled down. Additional trade restrictions would mean higher prices for the protected products, and they might pose an obstacle to the long-term vitality of the international economy. There is a cost to the third choice as well. We could choose to shift some of the burden of a rapidly changing economy from unemployed workers and affected communities to taxpayers. Such a plan might include additional retraining, relocation allowances, temporary wage subsidies, or special assistance to cities stunned by plant closings. But taxpayers would have to pick up the bill.

In weighing these choices and their costs, it is important to distinguish between what may be in our self-interest, and what is in the public interest. Suppose, for example, that in the interest of long-term prosperity, we conclude that it is necessary to move away from the protectionist approach toward one of the other strategies. What happens when, as a result, it is *our* job that disappears, *our* business that fails for lack of government assistance or protection, *our* town that suffers from plant closings?

The criterion of fairness is also important in choosing among these options. This nation's experience during the Great Depression, and again during World War II, indicates that we are able to act collectively, and even to agree upon measures that require great individual sacrifice, if there is a sense of shared sacrifice. In the 1930s, writes columnist Ellen Goodman, "people shared a belief that everyone was in the same boat, that they were in it together." But, Goodman continues, many people no longer feel that way. "We don't seem connected by that sinew today. I'll bet two-thirds of the people who are unemployed today feel as if they were picked off by some economic sharpshooter. Our troubles come with a deep sense of unfairness, a bitter edge."

Ultimately, the question of how we respond to the jobless is not a technical question that economists should work out among themselves but a value question. It has to do with the kind of society that we want for ourselves, and for our children — and what we are willing to do to achieve it.

For Further Reading

For the human side of economic change in the U.S., see John McCormick and Richard Manning's "The Blue-Collar Blues," in the June 4, 1984 issue of *Newsweek*. A later *Newsweek* article, by David Pauly with other members of the *Newsweek* staff, explains the corporate and financial side of our current "Bad News, Good News Boom" (July 9, 1984). Barry Bluestone and Bennett Harrison's *The Deindustrialization of America* (New York: Basic Books, 1982) is an account of the incidence of plant shutdowns and their effects.

For a readable discussion of the free market system, theory and fact, see Robert Heilbroner's *The Making of Economic Society* (Englewood Cliffs, N.J.: Prentice-Hall, 1980). Heilbroner's book also has an informative explanation of the effects of technology, past and present. For a detailed statement of the merits of an industrial policy see Robert Reich and Ira C. Magaziner's *Minding America's Business* (New York: Harcourt, Brace, Jovanovich, 1982).

The main issues of American trade are explored in a book prepared by The Congressional Quarterly, *Trade: U.S. Policy since 1945* (Washington, D.C.: Congressional Quarterly, Inc., 1984).

An award-winning film on the decision of the U.S. Steel Company to close down its Homestead mill, *The Business of America*, is available for rental from California Newsreel, 630 Natoma Street, San Francisco, California 94103.

Acknowledgments

Many people participated in the process of deciding upon this year's topics, discussing how they should be approached, preparing the materials, and reviewing their content. In addition to the people listed on the credits page, we would like to acknowledge the assistance of the following individuals. David Mathews and Daniel Yankelovich once again provided both guidance and encouragement. Jon Kinghorn played an indispensable role in keeping the various parts of this far-flung network in touch with one another, and providing assistance of many kinds to the convening institutions and forum leaders.

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NATIONAL ISSUES FORUM: RELATED MATERIALS

The following materials may be ordered for use with the 1984 National Issues Forum. Please specify quantities for each item in the space provided, fill in complete mailing address, and enclose check payable to: Domestic Policy Association. Orders must be paid in advance.

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NATIONAL ISSUES FORUM

2. Jobs and the Jobless in a Changing Workplace

Please answer these questions after you have attended the discussion or read the booklet. Answer them without reference to your earlier answers. Then hand in both reports to the forum moderator, or mail them to the Domestic Policy Association in the attached prepaid envelope. In case no envelope is enclosed, you can send these pages to the Domestic Policy Association at 5335 Far Hills Avenue, Dayton, Ohio 45429.

Part I:

For each item below, check the appropriate box to indicate if it is something

- ☐ we should do *now*
- ☐ we should do *only if* the problem of chronic unemployment gets worse
- ☐ we should *not* do under *any* circumstance

Proposals:	**Should Do Now**	**Only If**	**Should Not Do**	**Not Sure**
Government initiatives:				
1. Have the government provide preferential credit assistance to "sunrise" industries, those with a good chance of growth	☐	☐	☐	☐
PRO: Government investment could speed up the growth of new industries, thereby creating many jobs **CON:** The government cannot possibly make wiser, more efficient decisions than private investors can; potential for "pork barreling"				
2. Provide tax relief *only* to faltering industries such as steel, rubber, shoes, and machine tools	☐	☐	☐	☐
PRO: Such industries, once the backbone of our economy, provide Americans with thousands of jobs **CON:** Unfair to taxpayers and to consumers who would pay higher prices				
3. Have the government bail out companies such as Chrysler that would otherwise go out of business	☐	☐	☐	☐
PRO: Once-troubled companies such as Chrysler and Lockheed would not be in business if the government hadn't intervened **CON:** Success in one case does not guarantee success in another; once you start propping up sagging industries, you're rewarding the inefficient				
4. Impose further restrictions on foreign imports to preserve American jobs	☐	☐	☐	☐
PRO: Would save jobs in the short run **CON:** Might lead to retaliation and a trade war				
5. Lower trade barriers to promote free trade	☐	☐	☐	☐
PRO: More jobs are generated by exports than are lost because of foreign competition **CON:** Will lead to even more dislocated workers; countries we trade with have trade barriers against foreign products, so we should, too				
6. Provide additional government assistance to workers who lose their jobs through no fault of their own	☐	☐	☐	☐
PRO: Such workers lose their jobs because of decisions that benefit the rest of us: it's not fair to impose most of the burden on the people who are thrown out of work **CON:** We already have numerous programs to help such people, including unemployment insurance and food stamps. Neither employers nor the government can afford to be more sympathetic				

	Should Do Now	Only If	Should Not Do	Not Sure
7. Employers should be required to retrain workers for whom they can no longer provide jobs	☐	☐	☐	☐

PRO: Companies owe displaced workers more than a final paycheck

CON: Retraining is costly and not many companies can afford to provide such help

Part II:

Indicate whether you agree or disagree with each of these statements.

	Agree	Disagree	Not Sure
8. Without an explicit industrial policy, America will not be able to compete successfully in the international economy.	☐	☐	☐
9. Rather than trying to assist old industries, like steel and shoes, government should devote its resources to helping young industries like electronics and computers.	☐	☐	☐
10. Neither the government nor employers can afford to provide any more assistance to displaced workers than they are currently providing.	☐	☐	☐

Part III:

Background Questions

11. Which of the following DPA activities did you participate in?

- Read the booklet ☐
- Attended a forum ☐
- Both ☐
- Neither ☐

12. Did you participate in a DPA forum *last* year?

- Yes ☐
- No ☐

13. Did you (or will you) participate in DPA forums on other topics *this* year?

- Yes ☐
- No ☐

14. Which of these age groups are you in?

- Under 18 ☐
- 18 to 29 ☐
- 30 to 44 ☐
- 45 to 64 ☐
- 65 and over ☐

15. Are you a man or a woman?

- Man ☐
- Woman ☐

"I know no safe depository of the ultimate powers of the society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion by education."

Th Jefferson